

COMPREHENSIVE ANNUAL FINANCIAL REPORT

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ANTHONY A. WILLIAMS MAYOR

NATWAR M. GANDHI CHIEF FINANCIAL OFFICER



GOVERNMENT OF THE DISTRICT OF COLUMBIA
OFFICE OF THE CHIEF FINANCIAL OFFICER





ANTHONY A. WILLIAMS
MAYOR

January 23, 2004

Dear Citizens of the District of Columbia:

I am pleased to present the District of Columbia's Fiscal Year 2003 Comprehensive Annual Financial Report (CAFR). We completed Fiscal Year 2003 with a surplus of \$32 million, and once again the audit opinion is unqualified.

These outcomes mark the seventh consecutive year that the District realized surpluses and earned an unqualified opinion on its financial statements. These accomplishments have significantly improved the District's access to more favorable financing rates in the credit markets, and have increased interest in investing in residential, retail, and commercial projects throughout the entire District.

In my second inaugural address, I spoke about building upon my promise to make government work for all. We are not there yet, but we have put a substantial down payment on a better future for D.C. and its residents. Over the next few years, three priorities that we must still achieve are to better educate our children, expand opportunity for all, and increase the availability of affordable homes for our residents.

In an effort to meet these priorities, I have pledged to attempt to increase the resident population in the District by 100,000 over the next 10 years; to radically rethink the funding, organization and operation of the D.C. Public Schools; and to make sure that economic development spreads throughout the entire District. As impressive as our recent successes have been, we must continue to concentrate and to work even harder on the District's long-term viability.

With your continued support, we hope to spread the District's financial success to all of our neighborhoods and citizens.

Sincerely,

A handwritten signature in black ink that reads "Anthony A. Williams".

Anthony A. Williams
Mayor

GOVERNMENT OF THE DISTRICT OF COLUMBIA
OFFICE OF THE CHIEF FINANCIAL OFFICER



Natwar M. Gandhi
Chief Financial Officer

January 23, 2004

The Honorable Anthony A. Williams
Mayor of the District of Columbia
1350 Pennsylvania Avenue, N.W.
Washington, D.C. 20004

Dear Mayor Williams:

I am pleased to present the District of Columbia's Fiscal Year 2003 Comprehensive Annual Financial Report (CAFR). The year ended with General Fund revenues exceeding expenditures by \$32 million and a fund balance of \$897 million. I can also report that the District's financial statements again earned an unqualified "clean" audit opinion from its independent auditors. The District has just completed the seventh consecutive year of financial recovery. Each year ended with both a budget surplus and an unqualified audit opinion.

During Fiscal Year 2003, tax collections were \$106.9 million higher than expected, charges for services and other sources were \$(44.92) million less than expected, while grants and contributions were \$0.5 million higher than expected. In all, \$26.0 million more in general fund revenues were received than budgeted. Expenditures and other uses were lower in every category, resulting in \$37.2 million less being spent than was budgeted. Actual revenues exceeded actual expenditures by \$53.7 million on a budgetary basis, and by \$32 million on a basis consistent with generally accepted accounting principles.

We have accumulated an emergency and contingency cash reserve of approximately \$253.8 million, and our financial condition has allowed the District to continue to improve its bond rating. As a result, we enjoy lower borrowing costs on the District's outstanding debt. On the other hand, the District is always just one emergency away from an economic crisis. This condition exists because there is an imposed structural arrangement that unfairly limits the District's ability to generate revenue from its tax base. The federal government's restructuring in 1997 acknowledged the problem but failed to provide a long-term solution. The overall economic and structural position of the District remains a pressing issue that still needs to be addressed with the U.S. Congress and the President.

I would like to commend the many employees, both program and financial staff, especially the staff of the Office of Financial Operations and Systems, who have worked diligently to guarantee a successful closure of the District's books and ensure that our records meet the highest

standards required for an unqualified audit opinion. The many improvements that have been made in financial staffing, systems, and operations allow the program staff to more effectively manage government operations at all levels.

The District is one of the few major city or state governments in the United States that prepares its own CAFR. As we have continued to refine and improve our financial systems and processes, it is now firmly established that the annual audit requirement has become a routine event in the District's overall financial management reporting.

Sincerely,

A handwritten signature in black ink, appearing to read "NMG".

Natwar M. Gandhi
Chief Financial Officer

**Government of the District of Columbia
Comprehensive Annual Financial Report
Year Ended September 30, 2003**

Prepared by:

**Office of the Chief Financial Officer
Office of Financial Operations and Systems**

**Anthony F. Pompa
Deputy Chief Financial Officer
810 First Street, NE, Suite 200
Washington, D.C. 20002**

DISTRICT OF COLUMBIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
Year Ended September 30, 2003

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COMPREHENSIVE ANNUAL FINANCIAL REPORT

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Letter of Transmittal ★
Organizational Chart ★
List of Principal Officials ★
GFOA Certificate of Achievement ★

Introductory Section

GOVERNMENT OF THE DISTRICT OF COLUMBIA
OFFICE OF THE CHIEF FINANCIAL OFFICER





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January 23, 2004

Dr. Natwar M. Gandhi
Chief Financial Officer

The Comprehensive Annual Financial Report (CAFR) of the Government of the District of Columbia (District) for the fiscal year ended September 30, 2003, is herewith submitted. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the District. To the best of my knowledge and belief, the enclosed financial statements and schedules are accurate in all material respects and are reported in a manner designed to present fairly the financial position and results of operations of the various funds and component units of the District. This report includes all disclosures necessary to enable the reader to gain a useful understanding of the District's financial activities.

Report Sections

The CAFR is presented in three sections: introductory, financial, and statistical. The introductory section includes this letter of transmittal, the District's organizational chart, a list of principal officials and the Government Finance Officers Association's Certificate of Achievement for Excellence in Financial Reporting. The financial section includes the independent auditors' report, Management's Discussion & Analysis (MD&A), the basic financial statements, the notes to the basic financial statements, required supplementary information, and other supplementary information which includes combining and individual fund statements and schedules. The statistical section includes selected financial and demographic information, generally presented on a multiyear basis.

Management's Discussion & Analysis

Beginning last year, the District and many other state and local governments began presenting an MD&A section. The MD&A is an analysis of the financial condition and operating results of the District and is intended to introduce the basic financial statements and notes. The MD&A must be presented in every financial report that includes basic financial statements presented in accordance with accounting principles generally accepted in the United States (GAAP). The MD&A is presented before the basic financial statements. It is intended to provide an objective and easily readable analysis of the government's financial activities based on currently known facts, decisions, or conditions. The addition of the MD&A and the government-wide financial statements should provide financial information that will be of interest to user groups who historically have not shown much interest in governmental financial reports.

Financial Reporting Entity

The financial reporting entity consists of the primary government and its component units. The primary government is the District, which consists of all the organizations that make up its legal entity.

The Water and Sewer Authority, the Washington Convention Center Authority, the Sports and Entertainment Commission, the Housing Finance Agency and the University of the District of Columbia are legally separate organizations for which the elected officials of the District are financially accountable. The financial data for these component units are presented separately from the financial data of the primary government. The Tobacco Settlement Financing Corporation (TSFC) is presented as a blended component unit, as required by GAAP applicable to governmental entities.

The District of Columbia Housing Authority, The National Capital Revitalization Corporation and the District of Columbia Courts are related organizations. A related organization is an organization for which the primary government appoints a voting majority of the board, but for which it is not financially accountable.

Factors Affecting the District's Financial Condition

In May 2003, the United States General Accounting Office (GAO) issued the report "*District of Columbia – Structural Imbalance and Management Issues*". Structural imbalance is the fiscal and economic imbalance caused by being required to fund the services of both a state and city. The District also provides for the presence of the Federal government and other non-profit organizations. The inability to tax revenue earned by non-residents, and the inability to tax Federal properties, tax exempt properties, and non-profit international entities puts a severe strain on the District's limited resources. The District is also faced with high concentrations of individuals who require substantial support for education, health care, job creation and training, and subsidized housing. Further, the District faces higher rates of poverty, crime, and drug usage than many cities of comparable size.

The GAO report is very detailed, and is recommended reading for all who wish to obtain a more complete understanding of this issue, which is extremely important to the long-term improvement of the District's governmental operations, delivery of services, and the economic well being of the District. Please contact the GAO to request a copy of GAO-03-666. The following section provides highlights from the report:

- The cost of delivering an average level of services per capita in the District far exceeds that of the average state fiscal system due to factors such as high poverty, crime, and a high cost of living.
- The District's per capita total revenue capacity is higher than all other state fiscal systems but not to the same extent that its costs are higher. In addition, its revenue capacity would be larger without constraints on its taxing authority, such as its inability to tax federal property or the income of nonresidents.
- The District faces a substantial structural deficit in that the cost of providing an average level of public services exceeds the amount of revenue it could raise by applying average tax rates. Data limitations and uncertainties surrounding key assumptions in the GAO analysis make it difficult to determine the exact size of the District's structural deficit, though it likely ranges from \$470 million to \$1.143 billion annually.
- Even though the District's tax burden is among the highest in the nation, the resulting revenues plus federal grants are only sufficient to fund an average level of public services, if those services were delivered with average efficiency.
- The District's underlying structural imbalance is determined by factors beyond the District's direct control.
- The District continues to defer major infrastructure projects and capital investment because of its structural imbalance and its high debt level. These two factors make it difficult for the District to raise taxes, cut services, or assume additional debt.

Current Economic Condition and Outlook

As the nation's capital, the District of Columbia is the seat of the three branches of the federal government and headquarters for most federal departments and agencies. The federal work force in the District averaged approximately 189,000 employees in FY 2003 while approximately 150,000 additional federal employees worked elsewhere in the Washington metropolitan area. Although both the District and the federal government employ fewer people than in the past, new business operations, especially in the service industry, have filled the void and are driving the strengthening local economy.

The District hosts, on a permanent basis, more than 170 foreign embassies and recognized diplomatic missions. Also, a number of international organizations have their headquarters in the District, including the International Monetary Fund, the World Bank, the Inter-American Development Bank, and the Organization of American States. The United States' increasing involvement and leadership in international security, economic, political and health affairs and activities insure that even more international organizations will either establish offices within the District or the Washington metropolitan area.

More than 400 museums and historical landmarks are located in the District and attract millions of visitors each year. Citizens of all the states and international visitors enjoy the popular attractions along the National Mall as well as the monuments to presidents and the memorials of war. Tourists also discover reminders of their American heritage at the National Arboretum and the Kenilworth Aquatic Gardens in Northeast Washington, at Fort Stevens and at the National Museum of Health and

Medicine at the Walter Reed Army Medical Center located in the Georgia Avenue Corridor in Northwest, at the Congressional Cemetery and at Fort Dupont Park in Southeast, and at Fort McNair in Southwest. With its variety of activities and rich history, Washington, D. C. was recently voted a top destination for family travelers.

In calendar year 2002, approximately 17.6 million U.S. citizens visited Washington D.C., a decrease of about 3% from 2001. These visitors are very important to the District's economy because of the large sums of money spent on lodging, meals, retail purchases and other services. Estimates of international visitors for 2002 are approximately one million, a decrease of about 14% from 2001. The total amounts spent by visitors to D.C. in 2002 is not yet available but is expected to be comparable to calendar year 2000 spending of \$8.5 billion. This direct visitor spending generated additional business activity in related industries and boosted local as well as regional economic growth.

The District has evolved into a diverse economic community. The service industries now surpass the federal government as the largest employer. Expansion in legal services, high-speed Internet technology and communications provide new employment opportunities. The District is home to several prominent universities and major institutions of higher learning. Other universities from across the nation have established programs or campuses in and around the District. The District has 15 acute and long-term care facilities, including medical centers, hospitals for children and members of the military, and a regional shock and trauma center. More than 2,500 national trade associations, voluntary health and welfare and other not-for-profit organizations, and labor organizations are also headquartered in the District. The vacancy rate for non-sublet commercial office space was 5.13% in December 2002.

Total employment in the Washington metropolitan area was approximately 2,750,000 in FY 2003 compared to 2,696,100 in FY 2002, representing a slight increase. However, these numbers exclude the self-employed, domestic workers, military and foreign government personnel, which represent a significant portion of the actual work force of the region. District resident employment stayed at approximately 23% of the area total during both years. The September 2003, seasonally adjusted, unemployment rate in the District was 6.1%, the same as in September 2002. Total employment within the District increased to 667,000 in September 2003 from 652,000 in September 2002.

Current development projects in retail, entertainment, tourism, and housing support the expectation of additional growth in private sector employment over the next several years. A number of national retail and food service chains have already moved into renovated commercial spaces across the central business district, and similar projects are appearing in surrounding areas. The Swedish clothier Hennes & Mauritz partially leased the long-vacant Woodward & Lothrop Department store downtown and opened to long lines of customers in August 2003. It is hoped that this is a sign of the renewed interest of retailers to locate or expand their operations in the District's historic retail-oriented downtown.

XM Satellite Radio has occupied its new headquarters in the New York Avenue Technology Corridor, and other telecommunications companies are being encouraged to consider establishing business operations, such as data warehouses, nearby. The District, in partnership with the federal government and businesses in the New York Avenue Technology Corridor, has agreed to fund the construction of a new Metro rail station on the Red Line, which is the busiest line on the existing 103-mile system. This station is scheduled to be completed by December 2004, and the Washington Metropolitan Area Transit Authority is in the process of acquiring new railcars and modernizing many of its current railcars to accommodate this new station and increased traffic throughout the system.

The District selected a developer for the site of the former Wax Museum, east of Fifth Street, N.W., between K and L Streets. This project, when completed, will provide more than 500 apartments, a grocery store, a theater, art galleries, and several restaurants. A developer has also been selected for the old Tivoli Theater Complex in the Columbia Heights section of 14th Street, N.W. This development is near a recently opened Metro rail station and will include a Giant Food Supermarket and town houses. New residential construction is occurring in all sections of the District, and range from single-family dwellings, to town houses, to apartment buildings and condominiums. The District helped finance a total of 2,155 housing units in fiscal year 2003. These ongoing efforts are creating a vibrant downtown neighborhood, in addition to expanding residential development throughout the District.

Preliminary estimates indicate that between now and 2005; District employers will have a high demand for workers below the managerial, professional, and technical levels. Hundreds of employment opportunities are expected to become available in the service sector, particularly in food service, janitorial, and housekeeping operations. Administrative support staff, including first line supervisors, will also be in high demand. Of even greater impact should be the increased percentage of District residents expected to occupy these jobs.

The anticipated increase in non-governmental and total employment will mark an important milestone. The shift to a diversified employment base will continue to strengthen the District's economy, and make it more stable and less dependent

on the federal government. It appears that the trend for federal operations to move into suburban areas is slowing, while the District's economic base is continuing its shift from government towards private sector services employment.

The U.S. Census Bureau estimated that in July 2003 there were 563,384 permanent residents in the District, a decrease of 5,773 from the July 2002 figure of 569,157. The 2000 Census indicated that estimates of flight from the District had been overstated in Census estimates during the previous decade. The actual population loss was 5.7% from 1990 to 2000, which is almost 60% less than the estimated loss predicted by the previous 1990 Census results. Those same Census estimates predicted that the District population would not reach its current level for approximately five more years. In fact, the District's population decreased 16% between 1970 and 1980, but only experienced an additional 5% loss between 1980 and 1990 and 5.7% from 1990 to 2000. The annual Census estimates are made from birth and death records, changes in tax return filings and estimates of the number of immigrants who moved into the District each year. District officials have disagreed with this estimate based upon increased residential construction and property transfers. There is evidence that the U.S. Census has been historically low in its estimates of D.C. population. These estimates can affect the amount of Federal dollars that the District receives, which are based upon the Census Bureau's total population reports.

Major Initiatives

Casey Foundation Gifts

In February 2001, The Eugene B. Casey Foundation offered to make available a 16.5 acre property located at 1801 Foxhall Road, N.W., and to design and build an Official Residence for the D.C. Mayor, to be named the Casey Mansion. It was intended that the District would be given the right to use the Mansion as the Official Residence of the Mayor. The Foundation was to retain ownership of the property, and was to be solely responsible for all operating expenses.

In December 2003, the Foundation announced that it was terminating its plan to develop the Casey Mansion, and intended to transfer the property to The Salvation Army. The Salvation Army announced shortly thereafter that it planned to sell the property to the highest bidder. The Salvation Army also announced that the proceeds from the sale of the Foxhall property will be used to fund their new model Corps community center in the Anacostia area. This new development will benefit the District in two substantial ways: (1) it would bring increased tax proceeds to the District, with perhaps many new residents, and (2) the Anacostia facility will provide critical programs and opportunities in social services, job training, day care and economic development to District resident.

The District of Columbia is also benefiting from another extraordinary gift from the Foundation. The Foundation has established the Casey Tree Endowment Fund (the Fund) to augment District resources devoted to the care and replacement of trees in public spaces. The first major project completed by the Fund was the 2002 inventory of all District owned trees. There were approximately 106,000 trees and about 38,000 vacant planting spaces. The inventory also revealed that only about 32% of the trees are fully healthy and roughly 10% are dead.

The Casey Foundation and the Casey Tree Endowment Fund recognize that healthy trees contribute to our quality of life. The Fund is committed to planting approximately 6,000 trees per year to augment the District's efforts to protect and restore the District's urban tree canopy. In response, the District's Urban Forestry Administration is now committed to planting at least 4,000 trees per year and to increase the frequency of pruning. Dead and diseased trees will be removed or treated in a timely manner. The government and the residents of the District salute the humanitarian commitment of the Casey Foundation.

Washington Convention Center

The new Washington Convention Center opened as scheduled in April 2003. The new facility provides the District with 825,000 square feet of additional meeting and exhibition space. In 1995, the District established the Washington Convention Center Authority and provided it with dedicated tax revenues to operate the existing convention center and to construct a new convention center. Along with the existing facility, the total exhibitor and meeting space will exceed 1,000,000 square feet. The new facility will enable the District to maintain its position among major cities as a leader in conventions, conferences and the hospitality industry in general. Like the MCI Center, a privately financed sports arena that opened in 1997, the Convention Center project has provided opportunities for direct construction related employment, and is expected to generate many new jobs in the hospitality industry.

Over the past few years, the Washington Convention Center Authority has awarded in excess of \$300 million in construction and other contracts to Local Small Disadvantaged Business Enterprises. The old Convention Center will be eventually torn down and the site will be opened up to bids for development, which will, hopefully, include a combination of commercial, residential, cultural and urban park facilities and amenities. The old Carnegie Library reopened in the spring of 2003 as the

new \$30 million City Museum of Washington. The City Museum is unique in a city full of museums in that it is the only city museum devoted to Washington, D.C., its history, neighborhoods and people. The City Museum is located across the street from the new Washington Convention Center.

In late October 2002, the District announced that it had awarded the right to begin negotiations for the development of a convention center headquarters hotel of 1,000 to 1,500 rooms at 9th and Massachusetts Avenue, NW with Marriott International and Gould Properties. Financing for the \$500 million hotel is likely to be accomplished with tax-exempt revenue bonds. The project is expected to generate \$29 million a year in tax revenue for the District, create more than 2,000 full-time construction jobs and as many as 1,300 service-related jobs, when the hotel opens in late 2006 or early 2007.

Division of Transportation

The District's Division of Transportation (DDOT) is managing multiple active projects that maintain, upgrade or reconstruct many of the local sidewalks, streets and bridges. This comprehensive infrastructure revitalization effort enhances the general appearance of neighborhoods but also eases the access and quickens the flow of traffic through the business activity centers. The renewal projects add to the ability of the District to compete for new residents and businesses. Each success adds to the tax base and translates into improved services for all. One of DDOT's recently completed major construction projects is the upgrade of the New York Avenue Gateway to Washington, D.C.

DDOT is also working on the New York Avenue Corridor Study that is intended to resolve current and future transportation needs of the Corridor from the Gateway at the intersection of New York Avenue and the Baltimore-Washington Parkway to the new Convention Center. The objective is to attract technology and other businesses to the Corridor and to provide a magnificent entryway for all visitors to the nation's capital. DDOT has recently begun the planning and design process to upgrade the South Capitol Avenue Gateway to Washington, D.C., and to begin the process of revitalization in this area that has long been neglected. As such, DDOT is pursuing the "Anacostia Starter Line", one of the five new light-rail projects, which would begin in the District's poorest neighborhoods in Southeast, cross the Anacostia River and connect those residents with jobs and activities along the Southwest waterfront.

Neighborhood Revitalization

The District is solidifying its position as the world's capital for finance, technology, government and history. The District has become a vibrant and living community that includes world class arts, sports, entertainment and dining facilities; not just another place to stop, but a place to stay awhile, to live in, to play and to create. The Mayor has announced his goal to attract 100,000 new residents to the District within the next 10 years.

On March 22, 2000, the D.C. Mayor brought together the 20 federal and District agencies that own or control land along the Anacostia River to sign the Anacostia Waterfront Initiative (AWI) Memorandum of Understanding (MOU). The AWI MOU created an unprecedented partnership between the federal and District governments to transform the Anacostia River from the city's forgotten river to a gem that could rival any urban waterfront in the world. The District plans to transform the Anacostia River and its banks into an area that will support recreational activities, such as swimming, boating and fishing, and to create parks, neighborhoods and cultural venues. The plans, as outlined by District Officials, would cost billions and take at least 30-years to complete.

With Washington's downtown nearly built out, the city's pattern of growth is moving eastward toward and across the Anacostia River. The destiny of Washington, D.C. as the nation's capital and a premier world city is inextricably linked to re-centering its growth along the Anacostia River and making its long-neglected parks, environment and infrastructure a national priority. The recovery of the Anacostia Waterfront will help to reunite Washington, D.C. economically, physically and socially.

The vision of the AWI is of a clean and vibrant waterfront with parks, recreation uses and urban waterfront settings – places for people to meet, relax, encounter nature and experience the heritage of the waterfront neighborhoods. The AWI also seeks to ensure that the social and economic benefits derived from a revitalized waterfront are shared by those neighborhoods and people living along the Anacostia River for whom the river has been distant and out of reach. The Federal Government has also announced plans to increase its employment presence in the Southeast Federal Center, which already houses a number of U.S. agencies. Plans are under consideration for the long awaited development of federal lands near and adjacent to the U.S. Navy Yard.

In April 2001, the operator of the luxury hotel Mandarin Oriental announced that it would build a 400-room property on a vacant site along the waterfront in Southwest Washington after securing a \$46 million tax-revenue bond from the District. Construction of the \$155 million hotel, a project that is already four years in the making, is "critical" to the District's plans to

bring 800 housing units, restaurants, retail space and a waterfront park to Southwest. The tax exempt financing for this project was made available in April 2003.

The Georgetown Project is a joint effort by Pepco, Verizon, Washington Gas, the Water and Sewer Authority and DDOT. It will provide a major upgrade of Georgetown's underground utility infrastructure and the streetscape. The project began in October 2001 and is expected to take about four-years to complete. The Project will modernize the utility system to meet present and future growth in demand. Georgetown has some of the oldest underground infrastructure in Washington, D.C., and various utility and service disruptions required this coordinated effort to improve the infrastructure and reduce disruptions.

A new shopping center opened last year in the Ward 5 sector near the Rhode Island Avenue Metro rail station. It currently includes the major retail chains Home Depot and Giant Food. Kmart, which was also scheduled to build a store in this shopping center, has put its development plans on hold as it works its way through its bankruptcy proceedings. During 2001, plans were announced for the development of a 400,000-square-foot shopping center in the Fort Lincoln neighborhood in Northeast Washington, overlooking the New York Avenue Gateway. The rapid reconstruction and renovation of vacant warehouses, buildings and residential structures, in addition to entirely new construction in all areas of the District, is the incentive and marketing tool for attracting new residents and workers to the nation's capital.

The Freedom Forum, currently based in Rosslyn, Virginia, has purchased the former site of the District's Department of Employment Services (DOES) located at 6th & Pennsylvania Avenue, N.W. In addition to its main offices, the Freedom Forum will relocate its Newseum, an interactive news museum, with approximately 215,000-square feet, and develop both an additional 30,000 square feet of retail space and approximately 100 condominium units. The approximately 531,000-square foot development is estimated to cost about \$400 million. In October 2002, the Freedom Foundation and the Newseum formally presented their design for the new building. Demolition of the old DOES building has occurred and it is expected that the new Newseum will be completed and opened to the public by late 2006.

In keeping with the District's neighborhood revitalization strategy, DOES operations have been temporarily relocated to another area of the city that is targeted for development. While the new DOES headquarters is being developed and constructed, DOES staff is housed in a newly renovated warehouse near the intersection of New York and Florida avenues. The District's Department of Motor Vehicles is also to be relocated away from the downtown business district to make its primary services more accessible to citizens. These moves will spur additional development at the new sites.

The federal government has shown renewed interest in the District as the place for consolidating agencies, functions and staff. Construction of the U.S. Department of Justice's Bureau of Alcohol, Tobacco, Firearms and Explosives' new headquarters building has begun. The General Services Administration broke ground in April 2002 on the 422,000-square foot building. The decision to locate the project, at the intersection of First Street and New York Avenues, N.E. helped the District obtain matching Federal and private commitments of \$50 million to pay for a new Metro rail station near that location. Construction began in November 2002 and was originally projected to be completed in late-2004.

Economic Tax Incentives

The already popular tourism industry and other projects such as those discussed above only partially address the District's need to build a broader economic base. Both the U.S. Congress and the D.C. Council have enacted legislation and are taking action that aims at expansion of the District's permanent tax base by making all areas of the District economically attractive to both residents and new business interests.

The Taxpayer Relief Act of 1997 (PL 105-34) established the District of Columbia's Enterprise Zone. The zone consists of the previously existing enterprise zone community plus all other census tracts for which the poverty rate is at least 20%. The law also increased the limitation on tax-exempt economic development bonds to \$15 million. It eliminated the federal capital gains tax through December 31, 2007 on business stock, partnership interest, and business property held for more than five years in all census tracts for which the poverty rate is at least 10%. The federal Homebuyer Tax Credit, which provides a maximum \$5,000 federal income tax credit for first-time buyers of principal residences, was also included in the original Taxpayer Relief Act of 1997; it has since been extended for purchases closed through December 31, 2003, as were the business tax benefits.

The Tax Parity Act of 1999 lowered taxes on both income and real property. The new tax rates are expected to make the District more competitive with the suburban jurisdictions. The Tax Clarity Act of 1999 streamlined the tax code, eliminating duplications and discrepancies. During the same period, real property tax assessments have continued to reverse their decline and collections of both current and delinquent taxes have increased.

Additional business incentive legislation is awaiting final approval by the District and the U.S. Congress. The E-Economy Transformation Act of 2000 encourages new high technology firms to locate their operations in the District while encouraging the hiring of District residents. Brownfields redevelopment program legislation, which has proven successful in other jurisdictions, limits liability for certain environmental contamination and establishes funding mechanisms for those willing to develop Brownfields sites. Brownfields sites are abandoned buildings and properties that are contaminated (or perceived to be contaminated), complicating their potential for reuse. The cleanup of such sites, and the removal of liabilities that could arise from their reuse, allows Brownfields sites to become productive again. These sites are to be used for economic development activities, the creation of new and affordable housing, or for urban gardens, parks and recreation areas.

The Office of the Chief Financial Officer negotiated and certified two new projects for participation in the Tax Increment Financing (TIF) Program this year, the Mandarin Hotel on the Southwest Waterfront and Gallery Place in Chinatown, adjacent to the MCI Center. TIF agreements enable the District to influence certain conditions of each operation, including the percentage of District residents to be employed both during and after construction. Buoyed by the successes on the New York Avenue technology corridor, the District is actively proceeding with plans to restructure the economic base of other underserved neighborhoods. Local redevelopment options for both residential and retail investments are under discussion for a variety of sites outside of the central business area.

Other Initiatives

The District is supporting the efforts of a D.C.-based group that is attempting to bring a major league baseball team to the District that would use the Robert F. Kennedy Stadium. The Mayor has also announced that the District is willing to contribute up to \$200 million in public land, financing and other incentives to build a new ballpark in Washington. It is possible that a major league team could relocate to Washington, D.C. within the next two years. The National Football League was considering staging the Super Bowl in either New York or Washington D.C. in 2008. This was in support of the two cities that were targeted on September 11, 2001. However, it was recently announced by the National Football League that the 2008 Super Bowl will be awarded to Phoenix, Arizona. The addition of the new Convention Center, allied hotels, the prospect of a new stadium helps to improve the region's prospects to host this and many other national and international events in the future.

The District of Columbia College Access Act (PL 106-98), and its amendments, authorized the District to underwrite a portion of the differences between in-state and out-of-state tuition rates for eligible District residents who attend certain institutions of higher education outside of the District. Additional federal incentives under separate legislation, including tax credits and health care coverage, provide a variety of support to those who adopt children from the District's foster care system.

The District offers a tax-advantaged 529 College Savings Investment Plan (named after Section 529 of the Internal Revenue Code). The Plan is designed to help families save for the higher education expenses of designated beneficiaries and is available to DC residents as well as non-residents nationwide. This plan is reported in the Private-purpose trust fund.

Accounting System

The District's accounting system is organized and operated on a fund basis. A fund is a group of functions combined into a separate accounting entity (corresponding to a corporation in the private sector) having its own assets, liabilities, equity, revenues, and expenditures/expenses. The types of funds used are determined by GAAP, and the number of funds established within each type is determined by principles of sound financial administration. Specialized accounting and reporting principles and practices apply to governmental funds. Proprietary, component units and pension trust funds are accounted for in the same manner as similar business enterprises or non-business organizations.

Internal Control

Management of the District is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the District are protected from loss, theft or misuse and to ensure that adequate accounting data are processed and summarized to allow for the preparation of financial statements in conformity with GAAP. The internal control structure is designed to provide reasonable, but not absolute, assurances that these objectives are met. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management.

Budgetary Control

The District maintains budgetary controls designed to monitor compliance with expenditure limitations contained in the annual appropriated budget approved by the United States Congress. A project-length financial plan is adopted for the Capital Projects Funds. The level of budgetary control (the level at which expenditures cannot legally exceed the appropriated

amount) is established by function within the General Fund. The District also maintains an encumbrance recording system as one technique of accomplishing budgetary control. Generally, encumbered amounts lapse at year-end in the General Fund but not in the Capital Projects Funds.

The budgetary general fund differs from the GAAP- basis general fund and federal and private resources fund because the latter - the GAAP basis general and federal and private resources funds - focus on economic resources, while the budgetary general fund is prepared using modified accrual basis. For budgetary purposes, the general fund must be considered in conjunction with the federal and private resources major fund as presented in Exhibit 2-d. The District separated the federal and private resources fund from the general fund in order to enhance stakeholders understanding of the general operations of the District. The annual appropriated budget is prepared largely on a modified accrual basis because certain revenues are allowed by law to be collected after the fiscal year and used to pay the liabilities of the current year. These revenues include property taxes. Although, certain budgeting for inventory, Medicaid, certain pension and other employee benefits, and other expenditures are budgeted on a cash basis, these are immaterial.

The “*District Anti-Deficiency Act of 2002*” (the Act) became effective on April 4, 2003. The Act requires District managers to develop year-end spending projections, by source of funds, on a monthly basis, which show year-to-date spending, approved budget, year-end projected spending, explanations of variances greater than 5%, and in the case of overspending, corrective action plan. Spending projections are required to be submitted to the agency head and the agency chief financial officer. Summarized spending projections shall be submitted to the District’s Chief Financial Officer no more than 30-days after the end of the month.

The District’s Chief Financial Officer is required to submit reports to the D.C. Council and the Mayor on a quarterly basis indicating each agency’s actual expenditures, obligations, and commitments, each by source of funds, compared to their approved spending plan. This report is required to be accompanied by the CFO’s observations regarding spending patterns and steps being taken to assure that spending remains within the approved budget.

As required by Congressional mandate, the District must also build and maintain an emergency cash reserve equaling 4% of the total budget allocated for operating expenditures by FY 2004. An additional contingency cash reserve must also be established, which must equal 3% of the total budget allocated for operating expenditures. Beginning in FY 2007, the District will be required to maintain a combined balance of 7% for both reserves.

Cash Management

Generally, cash from all funds of the primary government is combined unless prohibited by law. Any cash that is not needed for immediate disbursement is invested in securities which are generally fully guaranteed by the federal government, such as mutual funds of federal government obligations or repurchase agreements collateralized by federal agency obligations.

The Financial Institutions Deposit and Investment Amendment Act of 1997 (D.C. Code 47-351.3) authorized the District to invest in certain obligations that may not be guaranteed by the federal government. Deposits and investments are fully collateralized with approved securities that are held by the District or by its agent in the District's name.

Risk Management

The District retains the risk of loss arising out of the ownership of property or from some other cause, except health care and life insurance benefits for employees. A liability is established in the government-wide statement of net assets to reflect certain contingencies; however, this balance is not intended to include all assets that may be required to finance losses. Rather, losses are recognized in the affected fund when they occur. The District is self-insured for workers compensation.

Independent Audit

District law (D.C. Code 47-119) requires an annual financial audit of the District by independent certified public accountants. The audit must be conducted in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* published by the U.S. General Accounting Office. The financial statements must be prepared in conformity with GAAP. The District has complied with these requirements and the independent auditors' report is included in the financial section of this report.

U.S. Office of Management & Budget Single Audit

The District is required by the U.S. Office of Management & Budget (OMB) to conduct a financial and compliance audit of all federal awards. OMB Circular A-133 (Revised) spells out these requirements, and sets forth standards for obtaining

consistency and uniformity among federal agencies for the audit of States, local governments, and non-profit organizations expending Federal awards. This Circular is issued pursuant to the Single Audit Act Amendments of 1996, P.L. 104-156.

The Office of Internal Audit and Internal Security, Office of the Chief Financial Officer, has completed all required A-133 Single Audits through fiscal year 2002 and the District is in full compliance with the Single Audit Act. The results of the District-wide Single Audit are presented in a separate report.

Award

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the District for its comprehensive annual financial report for the fiscal year ended September 30, 2002. The Certificate of Achievement is a prestigious national award that recognizes conformance with the highest standards for the preparation of state and local government financial reports.

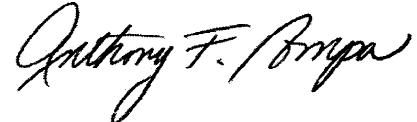
In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report whose contents conform to program standards. The report must also satisfy both GAAP and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. The District has received a Certificate of Achievement for nineteen of the last twenty-one years. The District believes that the current comprehensive annual financial report continues to conform to the Certificate of Achievement program requirements and it will be submitted to the GFOA for review.

Acknowledgments

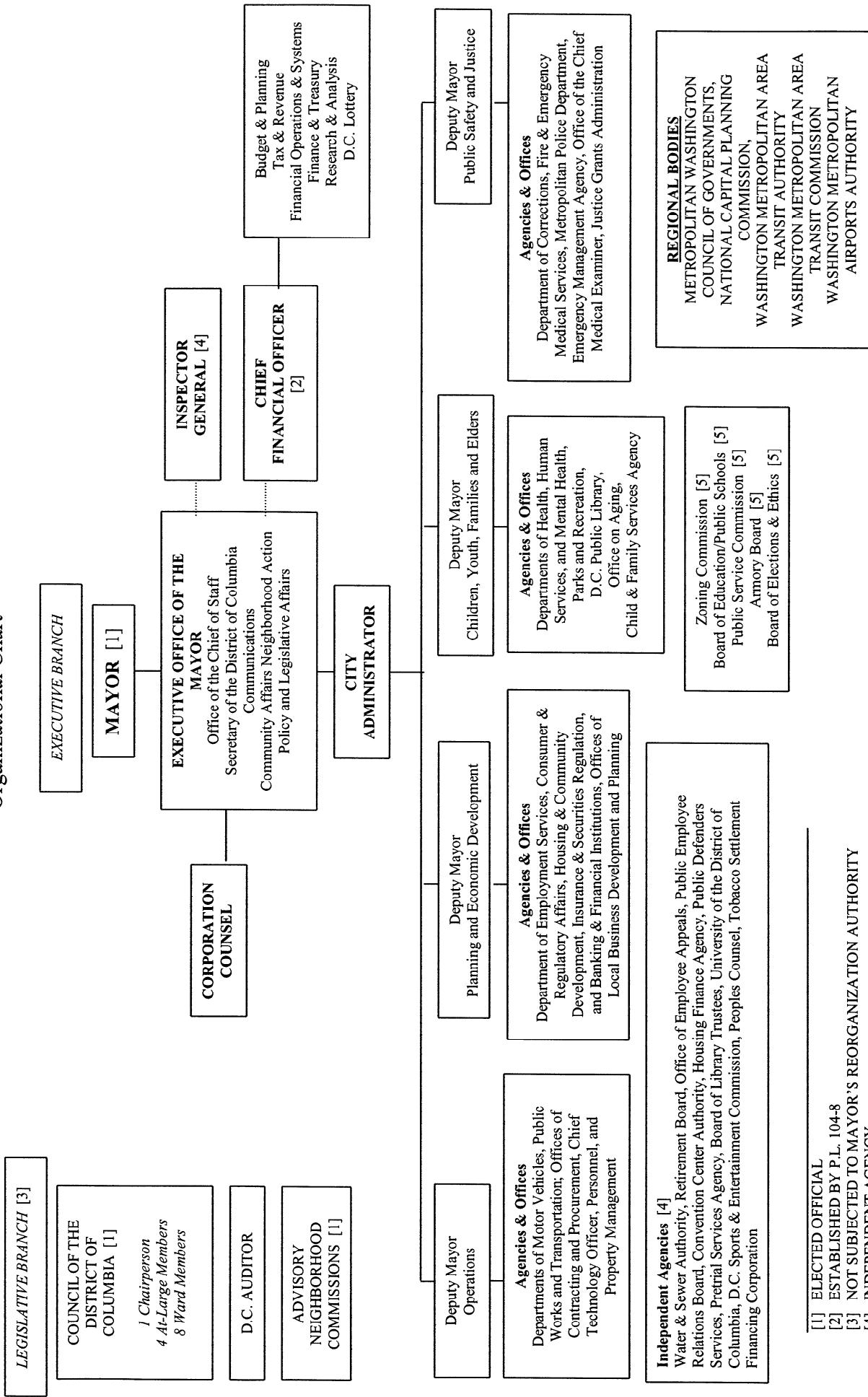
I want to thank the hundreds of accounting and financial personnel throughout the District who have cooperated with the Office of Financial Operations and Systems all year, especially in the past four months. I appreciate their efforts, which have continued to be an important factor in our preparation of this CAFR publication. Most of all, I want to thank my staff, *Grace Crocker, Larry Daniels, Chris LaCour, Bill Slack, Leticia Stephenson*, and their respective team members. I am grateful for their dedicated efforts. I also thank the Office of the Inspector General and the District's independent auditors, *KPMG LLP* who were assisted by *Bert Smith and Company; Thompson, Cobb, Bazilio and Associates; and Gardiner, Kanya and Associates* for their efforts throughout the audit engagement.

Respectfully submitted,



Anthony F. Pompa
Deputy Chief Financial Officer
Financial Operations and Systems

GOVERNMENT OF THE DISTRICT OF COLUMBIA
Organizational Chart



DISTRICT OF COLUMBIA
PRINCIPAL OFFICIALS
September 30, 2003

Name	Position	Chief Executive Officer	First Elected or Appointed	Term Expires
Anthony A. Williams	Mayor		1999	2007
Council				
Linda W. Cropp	Chairman		1991	2007
Harold Brazil	At Large		1991	2005
David A. Catania	At Large		1997	2007
Phil Mendelson	At Large		1999	2007
Carol Schwartz	At Large		1997	2005
Jim Graham	Ward 1		1999	2007
Jack Evans	Ward 2		1991	2005
Kathleen Patterson	Ward 3		1995	2007
Adrian Fenty	Ward 4		2001	2005
Vincent Orange	Ward 5		1999	2007
Sharon Ambrose	Ward 6		1997	2007
Kevin P. Chavous	Ward 7		1993	2005
Sandy Allen	Ward 8		1997	2005
House of Representatives				
Eleanor Holmes Norton	Delegate		1991	2005
Executive Officers				
John Koskinen	City Administrator			
Natwar M. Gandhi	Chief Financial Officer			
Robert Spagnoletti	Corporation Counsel			
Kelvin Robinson	Chief of Staff			
Eric Price	Deputy Mayor for Planning and Economic Development			
Carolyn Graham	Deputy Mayor for Children, Youth, Families and Elders			
Margret Nedelkoff Kellems	Deputy Mayor for Public Safety and Justice			
Herbert R. Tillery	Deputy Mayor for Operations			
Sherryl Hobbs Newman	Secretary of the District of Columbia			
Charles C. Maddox, Esq.	Inspector General			
Anthony F. Pompa	Deputy CFO, Financial Operations and Systems			
Bert Molina	Deputy CFO, Budget and Planning			
N. Anthony Calhoun	Deputy CFO, Finance and Treasury			
Dr. Julia Friedman	Deputy CFO, Research and Analysis			
Phil Brand	Deputy CFO, Tax and Revenue			
Steward D. Beckham	Associate CFO, Public Safety and Justice			
Pamela D. Graham	Associate CFO, Government Services			
Barbara D. Jumper	Associate CFO, Governmental Direction and Operations			
Henry W. Mosley	Associate CFO, Economic Development and Regulation			
Deloras A. Shepherd	Associate CFO, Human Support Services			
John D. Musso	Agency CFO, D.C. Public Schools			
Jeanette A. Michael	Executive Director, D.C. Lottery			

Certificate of Achievement for Excellence in Financial Reporting

Presented to

District of Columbia

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
September 30, 2002

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Edward Hanrahan
President



Jeffrey P. Ecker
Executive Director

COMPREHENSIVE ANNUAL FINANCIAL REPORT

2 0 0 3



- Independent Auditors' Report ★
- Management's Discussion and Analysis ★
- Basic Financial Statements ★
- Notes to the Basic Financial Statements ★
- Required Supplementary Information ★
- Other Supplementary Information ★

This subsection includes the combining and individual fund statements and schedules for the following:

- General Fund ★
- Nonmajor Governmental Funds ★
- Fiduciary Funds ★
- Supporting Schedules ★

Financial Section

GOVERNMENT OF THE DISTRICT OF COLUMBIA
OFFICE OF THE CHIEF FINANCIAL OFFICER



INDEPENDENT AUDITORS' REPORT



KPMG LLP
2001 M Street, NW
Washington, DC 20036

Independent Auditor's Report

To the Mayor and Council of the Government of District of Columbia
Inspector General of the Government of the District of Columbia

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Government of the District of Columbia (District), as of and for the year ended September 30, 2003, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the District, as of September 30, 2003, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the general and federal and private resources funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, the District has implemented the following Governmental Accounting Standards Board (GASB) pronouncements as of October 1, 2002:

- GASB Statement No. 40, *Deposit and Investment Risk Disclosures, an Amendment of GASB Statement No. 3*; and
- GASB Technical Bulletin 2003-1, *Disclosure Requirements for Derivatives Not Presented at Fair Value on the Statement of Net Assets*.



KPMG LLP, a U.S. limited liability partnership, is the U.S. member firm of KPMG International, a Swiss cooperative.



The Management's Discussion and Analysis on pages 17 through 32 and the schedule of employer contributions on page 91 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated January 23, 2004 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The introductory section, the other supplementary information presented in the financial section as listed in the table of contents, and the statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The statements and schedules described as other supplementary information have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

KPMG LLP

January 23, 2004

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MANAGEMENT'S DISCUSSION AND ANALYSIS

September 30, 2003

(Amounts expressed in thousands)

The following is a discussion and analysis of the District of Columbia's (the District's) financial performance that provides an overview of the activities for the fiscal year ended September 30, 2003. This discussion and analysis should be read in conjunction with the District's basic financial statements and the notes to the basic financial statements, which begin on pages 34 and 49 respectively.

In June 1999, members of the Governmental Accounting Standards Board (GASB) unanimously approved issuance of the most comprehensive governmental reporting standard ever developed—GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*. GASB Statement No. 34, as amended by Statements No. 35, 37 and 38, was implemented by the District during fiscal year 2002.

GASB Statement No. 34 required that governments include new information and/or change the way that they report certain information: (1) management's discussion & analysis (new); (2) government-wide financial statements (new); (3) fund financial statements, and; (4) notes to financial statements. The District was already reporting many items in compliance with GASB Statement No. 34 before they were required. The GASB Statement No. 34 changes are designed to make the financial statements of governments more consistent in the treatment and application of transactions and balances. In addition, the modifications to the reports make them more easy to read and understood by the general public.

In May 2002, GASB issued Statement No. 39, “*Determining Whether Certain Organizations Are Component Units*,” which became effective for financial statement for periods beginning after June 15, 2003. GASB Statement No. 39 amends GASB Statement No. 14, “*The Financial Reporting Entity*,” to provide additional guidance in determining whether certain organizations, for which the primary government is not financially accountable, should be reported as component units. The decisions are based on the nature and significance of their relationship with the primary government. The District has implemented GASB Statement No. 39 early. See Note 1. I., *New Accounting Standards Adopted*, on page 55, for additional detail about GASB Statement No. 39 implementation and impact.

The GASB issued Statement No. 40, “*Cash Deposits with Financial Institutions*” in March 2003. This statement establishes and modifies disclosure requirements related to investment risks, including custodial credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. The District and its component units are now required to disclose the amounts of deposit exposed to the various categories of deposit risk and the degree of risk associated with each category. Although GASB Statement No. 40 does not become effective until June 15, 2004, the District's implementation is already completed. See Note 1. I., *New Accounting Standards Adopted*, on page 55, for additional details about GASB Statement No. 40 implementation and impact.

In May 2003, GASB also issued Statement No. 41, *Budgetary Comparison Schedules—Perspective Differences*, an amendment of GASB Statement No. 34. The amendment to Statement No. 34 clarifies the budgetary presentation requirements for governments with significant budgetary perspective differences that result in not being able to present budgetary comparison information for their general fund and major special revenue funds. These governments are required to present budgetary comparison schedules as required supplementary information (RSI) based on the fund, organization, or program structure that the government uses for its legally adopted budget. This statement had no impact on the District's financial statements. See Note 1. I., *New Accounting Standards Adopted*, on page 55, for additional details about GASB Statement No. 40 implementation and impact.

The format and content of the CAFR this year is fully comparable to last year's CAFR. This year's CAFR includes direct, and extensive, comparisons with the previous year, and these comparisons will be included in all subsequent CAFRs. The focus of these comparisons is on both the District as a whole (government-wide), and the major individual funds.

Using This Annual Report

This annual report includes a series of financial statements. The *Statement of Net Assets*, Exhibit 1-a, and the *Statement of Activities*, Exhibit 1-b, on pages 34 to 35, present information about the financial activities of the District as a whole. These

two statements provide an overall view of the District's finances. The governmental fund financial statements, Exhibit 2-a, *Balance Sheet – Governmental Funds*. Exhibit 2-b, *Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds*, Exhibit 2-c, *Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities*, and Exhibit 2-d, *Budgetary Comparison Statement* on pages 36, 37, 38 and 39, respectively, show how these services were financed during the current year and the balances remaining for future spending. The fund financial statements focus on the most significant District funds and present operations in more detail. The other statements provide details for enterprise activities and other activities for which the District acts exclusively as a trustee or agent for the benefit of the non-governmental citizenry.

Reporting on the District as a Whole (Government-Wide Financial Statements)

The District, as a whole, now reports all assets and liabilities using the *accrual basis of accounting*. This method is similar to the accounting method used by most private-sector companies. In this way, all of the current year's financial activities are taken into account regardless of when cash is received or paid. The governmental activities and business-type activities are presented in two separate columns and combined to show totals for the primary government. The *Statement of Net Assets* and the *Statement of Activities* are two statements that present information and activities that help the reader determine the overall financial condition of the District. Readers can decide for themselves if the District's financial status has improved or deteriorated as a result of the current year's activities.

The District's current financial resources (short-term disposable resources) are reported along with capital assets and long-term obligations and are presented in the *Statement of Net Assets*. This report distinguishes between governmental activities, business-type activities and component units' activities. Total assets less total liabilities equal total net assets. The total net assets are the sum of these three components: 1) *invested in capital assets, net of related debt*, 2) *restricted assets* and 3) *unrestricted assets*. Over time and accounting periods, changes in the District's net assets are an indicator of its financial health. However, changes in population, property tax base, infrastructure deterioration and other non-financial factors must be incorporated in assessing the overall financial well being of the District.

The *Statement of Activities* summarizes both the gross and net cost of the governmental activities and business-type activities. Governmental activities show the District's basic functional services while business-type activities reflect enterprise operations where a fee for services is expected to cover all or most of the costs of operations, including depreciation. Program/function expenses are reduced by program specific earned revenues, and by grants, that reduce net expenses for governmental and business-type activities. The District's general revenues (property, sales, income and franchise taxes) offset remaining program/function costs, resulting in an increase or decrease in net assets.

Financial Highlights

- Total restricted net assets decreased by (\$1,845), while total unrestricted net assets increased by \$67,574, or 10.8%. Total restricted net assets was \$1,103,522 and is made up of governmental activities' restricted net assets of \$841,374 and business-type activities' restricted net assets of \$ 262,148 . Total unrestricted net assets amounted to a negative (\$556,344) and is made up of a deficit in governmental activities unrestricted assets of (\$593,786) offset by business-type activities unrestricted assets of \$ 37,442 . Government-wide total net assets of \$1,066,755 show a decrease of \$ (73,090) from the previous year. See Table 1, *Net Assets as of September 30, 2003*, on page 22. Please also refer to the discussion on pages 23 for an explanation related to the deficit in governmental activities unrestricted net assets.
- The District's governmental fund financial statements report total governmental revenues of \$5,986,129 , an increase of \$66,138 over FY 2002 governmental funds of \$5,919,991. The general fund revenues of \$3,872,313 were made up of these amounts from the following categories: property taxes of \$901,887 sales and use taxes of \$779,920 , income and franchise taxes of \$1,167,452 , gross receipts taxes of \$261,643 and other taxes of \$273,191, with other miscellaneous sources of general revenues amounted to \$488,220 . (From Exhibit 2b, *Statement of Revenues, Expenditures and Changes in Fund Balances –Governmental Funds*, page 37).
- General fund revenues increased by \$205,709, or 5.6% over FY 2002; federal and private resources revenues decreased by (\$172,472), or (8.7%); general capital improvements revenue increased by \$44,225, or 20.6% and non-major governmental funds revenues decreased by (\$11,325), or (18.8%) for a total governmental funds revenues increase of \$66,138 or 1.1%.

- Total governmental funds expenditures for the year were \$ 6,691,760 and the major expenditures were for Human Support Services - \$ 2,445,336 ; Public Education - \$ 1,155,297 ; and Public Safety & Justice - \$ 907,670 ; with other miscellaneous expenditures making up the remaining \$2,183,457 . These expenditures were paid from resources made available from general, federal and private resources, general capital improvements and non-major governmental funds. (From Exhibit 2b, *Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds*, page 37).
- Total governmental funds expenditures increased by \$242,135 over FY 2002 expenditures of \$6,449,625, or 3.8%: Human Support Services increased by \$196,033, or 8.7%; Public Education increased by \$12,016, or 1.1%; Public Safety & Justice increased by \$8,554, or 1.0%; and other expenditures increased by \$25,482, or 1.2%.
- Governmental activities net capital assets amounted to \$4,379,361 at September 30, 2003, while business-type activities net capital assets were \$ 4,032 for total net capital assets of \$4,383,393. (From Table 1, *Net Assets as of September 30, 2003*, page 22). Depreciation expense for governmental activities for the fiscal year was \$ 200,651 . (Please see Note 1. U, *Reconciliation of Government-Wide and Fund Financial Statements*, page 60). FY 2003 net capital assets from governmental activities increased by \$ 478,544 , or 12.3%, over FY 2002 governmental activities while business-type activities net capital assets increased by \$ 2,537 ,or (169.7%); and total capital assets increased by \$ 481,081 , or 12.3%.
- At September 30, 2003 the District's combined governmental funds reported total assets of \$2,422,579 , total liabilities of \$ 1,421,378 and total fund balances of \$ 1,001,201 . These fund balances are made up of reserved and unreserved amounts for the general funds, special revenue funds, and capital project expenditures. (From Exhibit 2-a, *Balance Sheet – Governmental Funds*, page 36).
- Total assets decreased from last year by (\$54,870), or (2.2%), total liabilities decreased by (\$189,601), or (11.8%), and total fund balances increased by \$134,731, or 15.5%.

The District's Financial Condition

The MD&A guidelines require that the District provide its citizens with an assessment of the condition of the District in its entirety, including the year's operating results, to assist the citizenry in:

- Determining whether the District's overall financial position improved or deteriorated;
- Evaluating whether the District's current-year revenues were sufficient to pay for current-year services;
- Understanding the extent to which the District has invested in capital assets, including roads, bridges, and other infrastructure assets; and
- Making better comparisons between the District and other governmental jurisdictions or entities.

There are various ways to measure the District's financial responsibility and performance. Some of the indicators of the District's improved financial position are:

- The District finished the year with total expenditures within budget.
- The General Fund produced a budgetary surplus of \$53,684.
- The District's General Fund accumulated fund balance is \$897,357, an increase of \$1,415,606 since FY 1996.
- The District's legal debt limitation would allow the District to pay up to 17.0% of its total revenues for debt service this year, whereas the District's FY 2003 debt service was 8.6% of total revenues, or about 50.6% of the limit.
- The District is now beginning to invest larger amounts of funds in infrastructure assets.

This brief assessment is in no way meant to replace reading the entire CAFR, especially the MD&A, the Notes and the Financial Statements, to further understand how the District's financial condition has changed during the past fiscal year. In

particular, please read the information on the District's structural imbalance on page 2. That section summarizes the United States General Accounting Office's report *"District of Columbia – Structural Imbalance and Management Issues."*

The Proprietary Funds

The District currently has two major Proprietary Funds: the D.C. Lottery & Charitable Games Board (Lottery) and the Unemployment Compensation Fund (Unemployment). The District has moved three small proprietary activities from the General Fund into the proprietary funds this fiscal year. These are shown as a group under the column "Non-Major Proprietary Fund." Proprietary funds are District units that charge customers for the services provided, whether to outside customers or to other units of the District. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities.

Total net assets, as of September 30, 2003, for Lottery, Unemployment and non-major proprietary funds were \$ 3,562 , \$262,148, and \$35,234 respectively. Total net assets for Lottery increased in fiscal year 2003 by \$ 77 , or 2.2%, and decreased for Unemployment by \$ (9,213), or (3.4%). Net cash provided by (used in) operating activities for Lottery, Unemployment and non-major proprietary funds was \$ 74,167 , \$ (49,612), and \$(12,324) respectively. Please refer to Exhibit 3-a, *Statement of Net Assets – Proprietary Funds*, Exhibit 3-b, *Statement of Revenues, Expenses and Changes in Fund Net Assets – Proprietary Funds*, and Exhibit 3-c, *Statement of Cash Flows – Proprietary Funds*, pages 40, 41 and 42 respectively for more detailed information.

The Component Units

The District currently has five Component Units: the D.C. Water & Sewer Authority, the Washington Convention Center Authority, the Sports & Entertainment Commission, the Housing Finance Agency and the University of the District of Columbia. Component units are legally separate organizations for which the elected officials of the District are financially accountable. Accountability exists because the Mayor, with the consent of the Council, or other District officials, appoints the governing bodies of all of the component units. In addition, the District has an obligation to provide financial support to the Convention Center, the Sports and Entertainment Commission, and the University of the District of Columbia, and certain tax revenues are dedicated to each of these organizations. The financial data of the component units are reported separately from the financial data of the primary government.

The five component units had combined total assets of \$4,220,606 , combined total liabilities of \$ 2,922,983 and combined total net assets of \$ 1,297,623 . The component units had combined total operating revenues of \$ 375,553 and combined total operating expenses of \$ 399,304 , resulting in a combined operating loss of \$23,751 a decrease of \$6,664 from FY 2002. The FY 2003 total change in net assets of \$60,454 was a decrease from the FY 2002 total change in net assets of \$90,104, or 33.2%. Each of the component units prepares its own independently audited financial statements, which is also accompanied by an MD&A. Please see Exhibit 5a, *Discretely Presented Component Units - Combining Statement of Net Assets*, page 46, and Exhibit 5b, *Discretely Presented Component Units - Combining Statement of Revenues, Expenses and Changes in Net Assets*, page 47, for more detailed financial information on the component units.

Short-Term Debt

The District issues short-term debt, when necessary, to finance seasonal cash flow needs. This need occurs due to the timing variance between receipts of taxes, grants and other revenues and the outflow of funds for governmental operations and other required disbursements. The District issued \$150,000 in General Obligation Tax Revenue Anticipation Notes on October 30, 2002 which were repaid on September 30, 2003. Whenever the District issues short-term debt, it must be paid off in its entirety by September 30 of that fiscal year.

Long-Term Debt and Bond Ratings

As of September 30, 2003, the District had \$ 3,251,118 in serial and term general obligation bonds, \$ 125,524 in tax increment financing (TIF) notes and bonds, \$ 506,550 in tobacco bonds and \$ 3,327 in qualified zone academy bonds outstanding. As of the end of fiscal year 2002, these amounts were as follows: \$ 2,670,573 in serial and long-term general obligation bonds, \$ 126,545 in TIF notes/bonds and \$ 514,280 in tobacco bonds and \$3,582 in qualified zone academy bonds outstanding.

Between FY 2003 and FY 2002, there was an increase in outstanding general obligation bonds of \$ 580,545 after debt payments of \$ 284,660 , a decrease in TIF obligations of \$ (1,021), a decrease in tobacco bonds of \$ (7,730), and a decrease

in qualified zone academy bonds outstanding of (\$255). (Please see Note 7. *Long-Term Liabilities*, pages 73-80 for a more detailed discussion).

On October 15, 2002, the District issued \$75,900 and \$74,000 in capital bonds, (Series 2002A-1 and 202A-2) respectively, with both series to mature on June 1, 2019. Also on October 15, 2002, the District issued \$112,225 and \$112,075 in capital bonds, (Series 2002B-1 and 202B-2) respectively, with both series to mature on June 1, 2019. On October 31, 2002, the District issued \$38,175 in general obligation refunding bonds, (Series 2002C), scheduled to mature on June 1, 2014 and \$124,995 in multimodal general obligation refunding bonds, (Series 2002D), scheduled to mature on June 1, 2031. On July 31, 2003, the District issued \$327,835 in general obligation bonds, (Series 2003A), scheduled to mature on June 1, 2028.

In March, Moody's Investors Service upgraded the District's bond rating from "stable" to "positive." The positive outlook stems from the financial results shown in the FY 2002 Annual Audit and the District's action taken to close a large projected budget gap in FY 2003. In June, the D.C. Mayor and CFO jointly announced that Fitch Ratings and Standard and Poor's had also upgraded the District's General Obligation Bonds to A- from BBB+, thus demonstrating that the District continues to receive the confidence of Wall Street analysts.

The improved bond ratings allows the District to either refinance outstanding debt, or to issue new debt, at more favorable rates than in the past when the District's financial and operational difficulties required the District to pay substantially higher interest rates for its debt. Reduced rates translate into reduced debt service payments, resulting in a greater percentage of the District's budget being available for the needed services and operations for its citizens.

Financial Analysis of the Government as a Whole

Comparative information for assets, liabilities, net assets, and revenues are now available, given that this is the second year of the GASB Statement No. 34 implementation. Beginning with this FY 2003 CAFR, all future CAFRs will be completed with comparative reporting showing the differences between the current year's budget and actual amounts, in addition to showing selected differences between the current fiscal and the prior fiscal year. There are always variances between budget and actual, and also between fiscal years, but it is more helpful for the reader if the focus is on significant variances, or changes.

Table 1, *Net Assets as of September 30, 2003*, shows net assets from governmental activities and business-type activities, and the combined totals. The District has \$6,538,055 in total assets from governmental activities and \$419,677 from its business-type activities, for a total of \$6,957,732. Total liabilities are \$5,772,244, \$118,733, and \$5,890,977 respectively for governmental activities, business-type activities and the total of the two. The District, by deducting the total liabilities from the total assets, is showing net assets of \$765,811 for governmental activities, \$300,944 for business type activities, and total net assets of \$1,066,755.

For FY 2002 the District had \$6,066,755 in total assets from governmental activities and \$386,233 from its business-type activities, for a total of \$6,452,988. The total liabilities associated with these amounts were \$5,201,756, \$111,387 and \$5,313,143 respectively for governmental activities, business-type activities and the total of the two. By deducting the total liabilities from the total assets, the District showed net assets of \$864,999 for governmental activities, \$274,846 for business type activities for total net assets of \$1,139,845.

The District's combined total net assets decreased by \$ (73,090) in fiscal year 2003. This decrease is the combination of governmental activities decrease of \$ (99,188) and an increase for business-type activities of \$ 26,098 . Please refer to Table 2, *Change in Net Assets as of September 30, 2003*, on page 23.

The District had \$1,103,522 in total restricted net assets as of September 30, 2003, which is made up of \$ 841,374 from governmental activities and \$ 262,148 from its business-type activities. At the same time, the District is showing a negative (\$556,344) in unrestricted net assets, which is the result of negative unrestricted net assets from its governmental activities of (\$593,786) and positive unrestricted net assets of \$ 37,442 from business-type activities.

Table 1 - Net Assets as of September 30, 2003

	Governmental activities		Business-type activities		Totals		
	2003	2002	2003	2002	2003	2002	Variance
Current and other assets	\$ 2,158,694	\$ 2,165,938	\$ 415,645	\$ 384,738	\$ 2,574,339	\$ 2,550,676	\$ 23,663
Capital assets	4,379,361	3,900,817	4,032	1,495	4,383,393	3,902,312	481,081
Total assets	6,538,055	6,066,755	419,677	386,233	6,957,732	6,452,988	504,744
Long-term liabilities	4,365,833	3,635,149	64,906	70,158	4,430,739	3,705,307	725,432
Other liabilities	1,406,411	1,566,607	53,827	41,229	1,460,238	1,607,836	(147,598)
Total Liabilities	5,772,244	5,201,756	118,733	111,387	5,890,977	5,313,143	577,834
Net assets:							
Invested in capital assets,							
net of related debt	518,223	656,901	1,354	1,495	519,577	658,396	(138,819)
Restricted	841,374	834,006	262,148	271,361	1,103,522	1,105,367	(1,845)
Unrestricted	(593,786)	(625,908)	37,442	1,990	(556,344)	(623,918)	67,574
Total net assets	\$ 765,811	\$ 864,999	\$ 300,944	\$ 274,846	\$ 1,066,755	\$ 1,139,845	\$ (73,090)

The District had \$1,105,367 in total restricted net assets at September 30, 2002. This amount was the result of \$834,006 from governmental activities and \$271,361 from its business-type activities. At the same time, the District showed a negative (\$623,918) in unrestricted net assets, which was the result of negative unrestricted net assets from its governmental activities of (\$625,908) and positive unrestricted net assets of \$1,990 from business-type activities.

In FY 2003, total restricted net assets decreased by (\$1,845), or essentially unchanged, and was composed of an increase of \$7,368, or 0.9%, for governmental activities, and a decrease of (\$9,213), or (3.4%), from business-type activities.

The D.C. Lottery transferred \$72,050 of its income to the District, which was a \$9,050 increase over last year's transfer. Each year, the D.C. Lottery transfers substantially all of its net income to the District. There was also a transfer to establish a new non-major proprietary fund of \$34,476 from proprietary activities that had been included as governmental activities. The net of these two transfers, was a net transfer to the governmental activities of \$37,574. Please see Exhibit 3-b, *Statement of Revenues, Expenses and Changes in Fund Net Assets – Proprietary Funds*, on page 41. The \$72,050 transfer from the business-type activities (D.C. Lottery) is shown as a reduction, and the transfer to governmental activities is shown as an increase, so there is no effect on the District's total net assets.

Fund balances in the fund financial statements will generally differ from net assets in the government-wide financial statements due to the difference in the measurement focus and basis of accounting used in the respective financial statements. Fund financial statements focus primarily on the sources, uses, and balances of current financial resources and use the modified accrual basis of accounting. The Government-wide financial statements focus on all the economic resources of the District and use the full accrual basis of accounting, which is similar to the accounting method used by most private sector companies. These differences may result in the Government-wide statements reflecting negative unrestricted net assets.

Please refer to Note 1.U – *Reconciliation of Government-Wide and Fund Financial Statements*, on pages 60, for additional information on how to understand the differences between the two bases of accounting that the District uses in this Report.

Table 2 - Change in Net Assets as of September 30, 2003

	Governmental activities		Business-type activities		Total	
	2003	2002	2003	2002	2003	2002
Revenues:						
Program revenues:						
Charges for services	\$ 323,161	\$ 286,044	\$ 272,014	\$ 211,151	\$ 595,175	\$ 497,195
Operating grant and contributions	1,833,060	1,890,544	55,356	49,308	1,888,416	1,939,852
Capital grants and contributions	176,449	161,450	-	-	176,449	161,450
General revenues:						
Property taxes	899,665	809,069	-	-	899,665	809,069
Other taxes	2,482,206	2,425,415	82,626	104,945	2,564,832	2,530,360
Other	368,439	353,226	19,593	18,978	388,032	372,204
Total revenues	6,082,980	5,925,748	429,589	384,382	6,512,569	6,310,130
Expenses:						
Governmental direction and support	504,513	451,863	-	-	504,513	451,863
Economic development and regulation	252,716	323,804	-	-	252,716	323,804
Public safety and justice	936,797	920,599	-	-	936,797	920,599
Public education system	1,168,545	1,153,719	-	-	1,168,545	1,153,719
Human support services	2,572,881	2,267,597	-	-	2,572,881	2,267,597
Public works	312,704	279,506	-	-	312,704	279,506
Public transportation	272,726	184,883	-	-	272,726	184,883
Interest on long-term debt	178,301	175,241	-	-	178,301	175,241
Fiscal charges	20,559	19,746	-	-	20,559	19,746
Lottery and games	-	-	166,185	148,670	166,185	148,670
Unemployment compensation	-	-	165,045	191,043	165,045	191,043
Nursing home services	-	-	34,687	-	34,687	-
Total expenses	6,219,742	5,776,958	365,917	339,713	6,585,659	6,116,671
Increase in net assets before transfers and special items	(136,762)	148,790	63,672	44,669	(73,090)	193,459
Special item – loss on disposal	-	(171,094)	-	-	-	(171,094)
Transfer to nonmajor proprietary funds	(34,476)	-	34,476	-	-	-
Transfer from lottery and games	72,050	63,000	(72,050)	(63,000)	-	-
Increase (decrease) in net assets	(99,188)	40,696	26,098	(18,331)	(73,090)	193,459
Net assets - Oct 1, 2002	864,999	824,303	274,846	293,177	1,139,845	1,117,480
Net assets - Sept 30, 2003	\$ 765,811	\$ 864,999	\$ 300,944	\$ 274,846	\$ 1,066,755	\$ 1,310,939

Chart 1 shows various sources of revenues. This chart is a visual presentation of the numbers that were just discussed in Table 2, *Change in Net Assets* as of September 30, 2003 page 23.

Chart 1 - Revenues by Source - Governmental Activities

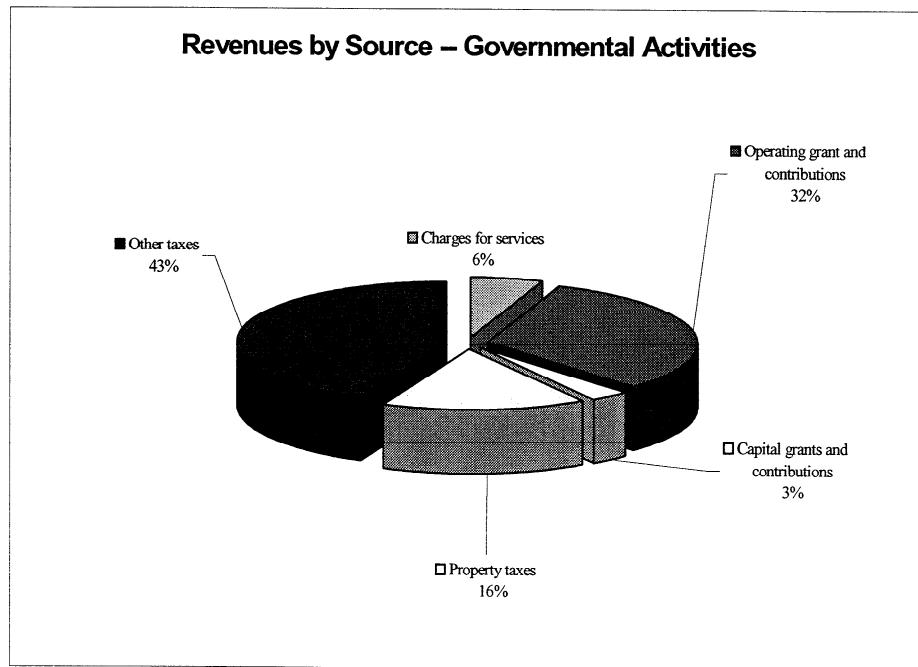
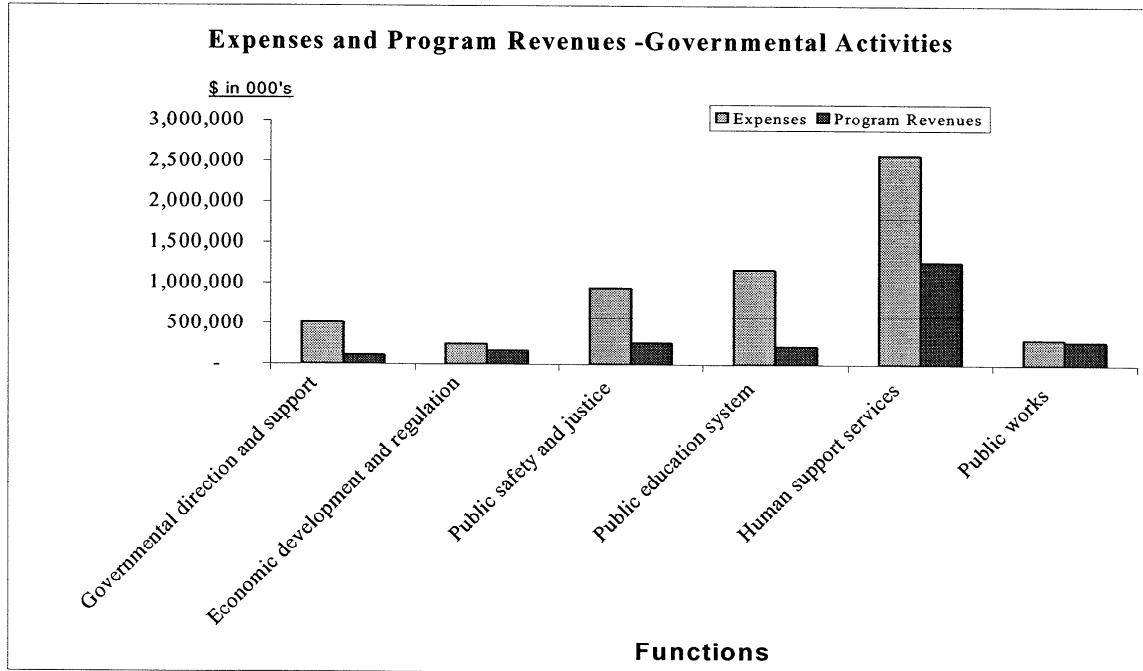


Chart 2 displays both expenses and program revenues of selected governmental activities for the fiscal year. The governmental activities are governmental direction and support, economic development and regulation, public safety and justice, public education system, human support services and public works.

Chart 2 - Expenses and Program Revenues – Governmental Activities



Reporting on the District's Most Significant Funds

The fund financial statements presentation will be more familiar to regular readers of the traditional CAFR. Starting in FY 2002, the focus is on major funds and not on fund types. Major funds, as defined by GAAP, are presented individually, with non-major governmental funds combined in a single column. Sources and uses of resources assigned through the financial planning and budgeting process measure the District's ability to fund operations in the short-term.

District laws, bond covenants, and other legal stipulations cause funds to be established for specific purposes and to report on the activities related to supplies and services that they provide to the general public. A fund is a fiscal and accounting entity with a self-balancing set of accounts that the District uses to keep track of specific sources of funding and spending for a particular purpose. The District's funds are presented in three categories or groups – governmental, proprietary and fiduciary.

Governmental Funds

The governmental fund financial statements relate to the governmental activities column in the government-wide statements. The focus is on a shorter-term basis and measures how money flows into and out of these funds and determines the balances left at year-end for future spending. Most basic services are found in this fund category and are reported as General, Federal and Private Resources, General Capital Improvements, and Non-major Governmental Funds. These funds are reported using the *modified accrual accounting basis*, which measures cash and other financial assets that can be readily converted to cash. Please refer to Exhibit 2-a, *Balance Sheet – Governmental Funds* and Exhibit 2-b, *Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds*, pages 36 and 37, for more detailed information about this section.

The District reported the following total assets in its governmental funds balance sheet: \$1,624,739 in its general fund, \$578,096 in federal & private resources, \$115,906 in general capital improvements, and \$103,838 in non-major governmental funds, for total governmental fund assets of \$2,422,579 as of September 30, 2003. Last year The District reported the following total assets in its governmental funds balance sheet: \$1,616,535 in its general fund, \$519,473 in federal & private resources, \$166,626 in general capital improvements, and \$174,815 in non-major governmental funds, for total governmental fund assets of \$2,477,449 as of September 30, 2002.

Comparing this year's results to last year shows that: total assets in the District's general fund balance sheet increased by \$8,084, or 0.5%; federal & private resources increased by \$58,623, or 11.3%; general capital improvements decreased by (\$50,720), or (30.4%); non-major governmental funds assets decreased by (\$70,977), or (40.6%), and; total governmental funds assets decreased by (\$54,870), or (2.2%).

The District reported the following liabilities in its governmental funds balance sheet: \$ 727,382 in its general fund, \$ 427,876 in federal & private resources, \$ 257,710 in general capital improvements, and \$ 8,410 in non-major governmental funds, for total governmental fund liabilities of \$1,421,378. Please see Exhibit 2-a, *Balance Sheet – Governmental Funds*, page 36, for more detailed information. Last year, the District reported the following liabilities in its governmental funds balance sheet: \$751,207 in its general fund, \$283,674 in federal & private resources, \$556,156 in general capital improvements, and \$19,942 in non-major governmental funds, for total governmental fund liabilities of \$1,610,979.

The FY 2003 results when compared to last year shows the following: total liabilities in the District's general fund balance sheet decreased by (\$23,825), or (3.2%); federal & private resources liabilities increased by \$144,202, or 51.5%; general capital improvements liabilities decreased by (\$298,446), or (53.7%); non-major governmental fund liabilities decreased by (\$11,532) or (57.8%), and; total governmental fund liabilities decreased by (\$189,601), or (11.8%).

The District reported the following revenue amounts in the governmental funds: \$ 3,872,313 , or 64.7%, in the general fund, \$ 1,805,969 , or 31.1%, in federal & private resources, \$ 258,992 , 4.3%, in general capital improvements, and \$ 48,855 , or .8%, in non-major governmental funds, for a total of \$ 5,986,129 for the year ended September 30, 2003. In FY 2002, the District reported the following revenue amounts in its governmental funds: \$3,666,604 in its general fund, \$1,978,440 in federal & private resources, \$214,767 in general capital improvements, and \$60,180 in non-major governmental funds, for a total of \$5,919,991. The year-to-year comparisons results in revenue amounts in its governmental funds that show an: increase of \$205,709, or 5.6%, in its general fund, a decrease of (\$172,471), or (8.7%) in federal & private resources; an increase of \$44,225 in general capital improvements, or 20.6% and; a decrease in non-major governmental funds of (\$11,325), or (18.8%), for an overall increase in governmental funds revenues of \$66,138 or 1.1%.

The District reported the following expenditure amounts in its governmental funds: \$ 3,769,141 in its general fund, \$ 1,990,623 in federal & private resources, \$ 823,398 in general capital improvements, and \$ 108,598 in non-major governmental funds, for a total of \$ 6,691,760 in governmental fund expenditures for the year ended September 30, 2003. For the year ended September 30, 2002, the District reported the following expenditure amounts in its governmental funds: \$3,668,559 in its general fund, \$1,783,501 in federal & private resources, \$814,129 in general capital improvements, and \$183,436 in non-major governmental funds, for a total of \$6,449,625. The year-to-year change was: an increase of \$100,582 for general funds expenditures, or a 2.7%; an increase of \$207,122 in federal & private resource expenditures, or 11.6%; an increase of \$9,269 in general capital improvements expenditures, or 1.1%; a decrease of (\$74,838) in non-major governmental funds expenditures, or (40.8%) and; an overall increase of governmental funds expenditures of \$242,135, or 3.8%.

The general fund had an excess of revenues over expenditures of \$103,172; while federal & private resources had a deficiency of revenues under expenditures of (\$184,654); general capital improvements had a deficiency of revenues under expenditures of (\$564,406); non-major governmental funds had a deficiency of revenues under expenditures of (\$59,743). This resulted in a combined deficiency of total revenues under total expenditures of (\$705,631). With the addition of \$840,362 from other financing sources, the net FY 2003 governmental funds change in fund balances was \$134,731, resulting in a total combined governmental funds balance of \$1,001,201 as of September 30, 2003. Please see Exhibit 2-b, *Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds*, page 37, for more detailed information.

The major expenditures of total governmental funds was for human support services, which spent \$2,445,336; public education system spent \$1,155,297, public safety and justice spent \$907,670, and capital outlay spent \$762,145, which was 36.5%, 17.3%; 13.6%, and 11.41%, respectively of the total governmental funds expenditures of \$6,691,760.

General capital improvements expenditures of \$ 823,398 exceeded the general capital improvements revenues of \$ 258,992 by \$ (564,406), which created the deficiency shown. What this means is that the District is investing more in capital improvements than the available current year revenues before considering current year bond proceeds. The deficiency is being financed through the transfer of bond proceeds. The District is rapidly investing in infrastructure and other improvements to encourage residents and businesses to stay in the District and also to attract new residents and businesses to move into the District. Please see Exhibit 2-b, *Statement of Revenues, Expenditures and Changes in Fund Balances*, page 37, for more detailed information.

The net change in the general capital improvements fund for fiscal year 2003 was an increase of \$ 247,726 after other financing sources of \$ 812,132 was added to the \$ (564,406) deficit mentioned above. It is the District's financial policy to issue general obligation bonds to support the expenditures associated with its Capital Improvements Program. In order to minimize the cost of carrying debt, the District has instituted the practice of issuing bonds based on actual expenditures as opposed to the amount budgeted on an annual basis. The District authorizes agencies to spend their annual appropriated budget in advance of financing. The general fund advances the amount of the funding, and is repaid with the proceeds from the bonds when issued. This allows the District to determine when it will enter the market to issue bonds based upon cash flow needs, favorable market rates and the number of municipal debt financing and the types of credits that are available. This flexibility helps to minimize borrowing costs and maximizes the pool of potential investors for the District's debt issuances.

Proprietary Funds

Proprietary funds provide supplies and services to the general public and use *accrual accounting* for reporting purposes. The District recognizes two major funds: Lottery and Games (Lottery), Unemployment Compensation (Unemployment); and one non-major proprietary fund in this classification. The non-major proprietary fund includes the operations of the Washington Center for Aging Services, the Washington Center for Aging Services Center Care, and JB Johnson Nursing Center. The following two charts, Chart 3, *Expense and Program Revenues – Business-Type Activities* and Chart 4, *Revenues by Source – Business-Type Activities*, give a visual comparative presentation of the revenues and expenses of the three funds

The graphic comparisons in Charts 3 and 4 are based upon financial information in Exhibit 3-a, *Statement of Net Assets – Proprietary Funds*, page 40, and Exhibit 3-b, *Statement of Revenues, Expenses and Changes in Fund Net Assets – Proprietary Funds*, page 41. Please refer to these exhibits and the prior discussion on page 20 of the MD&A for more detailed financial information on proprietary funds.

Chart 3 – Expenses and Program Revenues – Business-type Activities

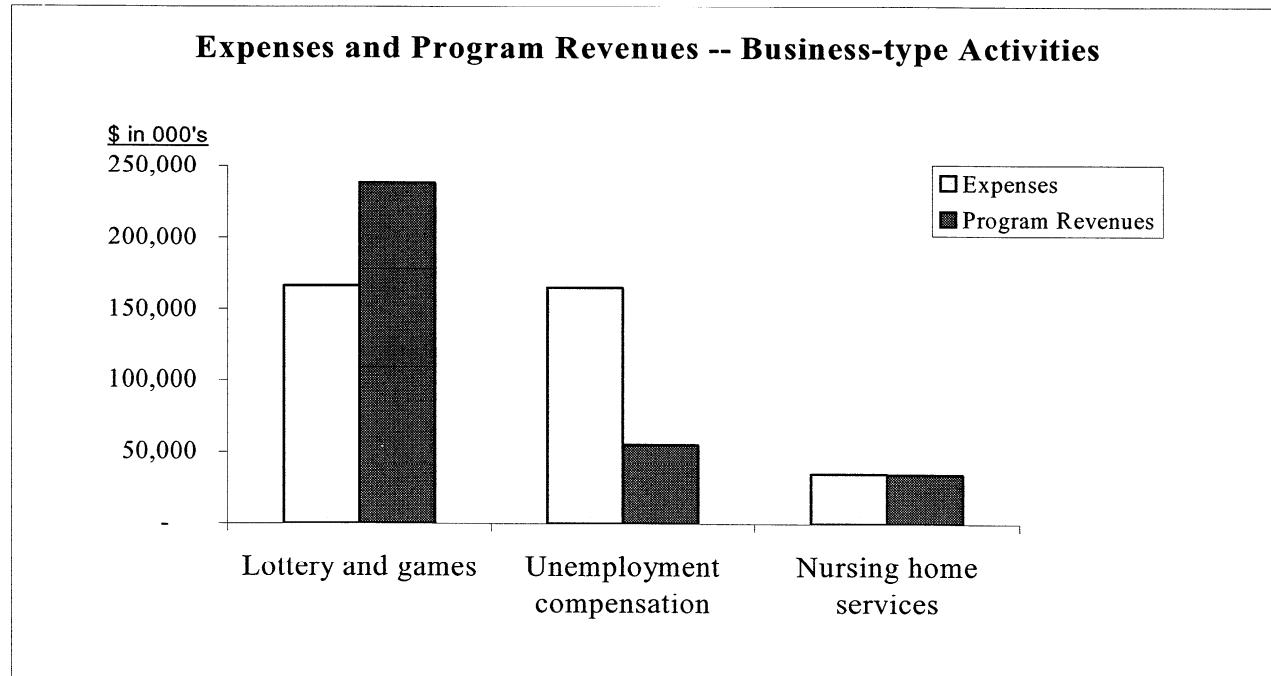
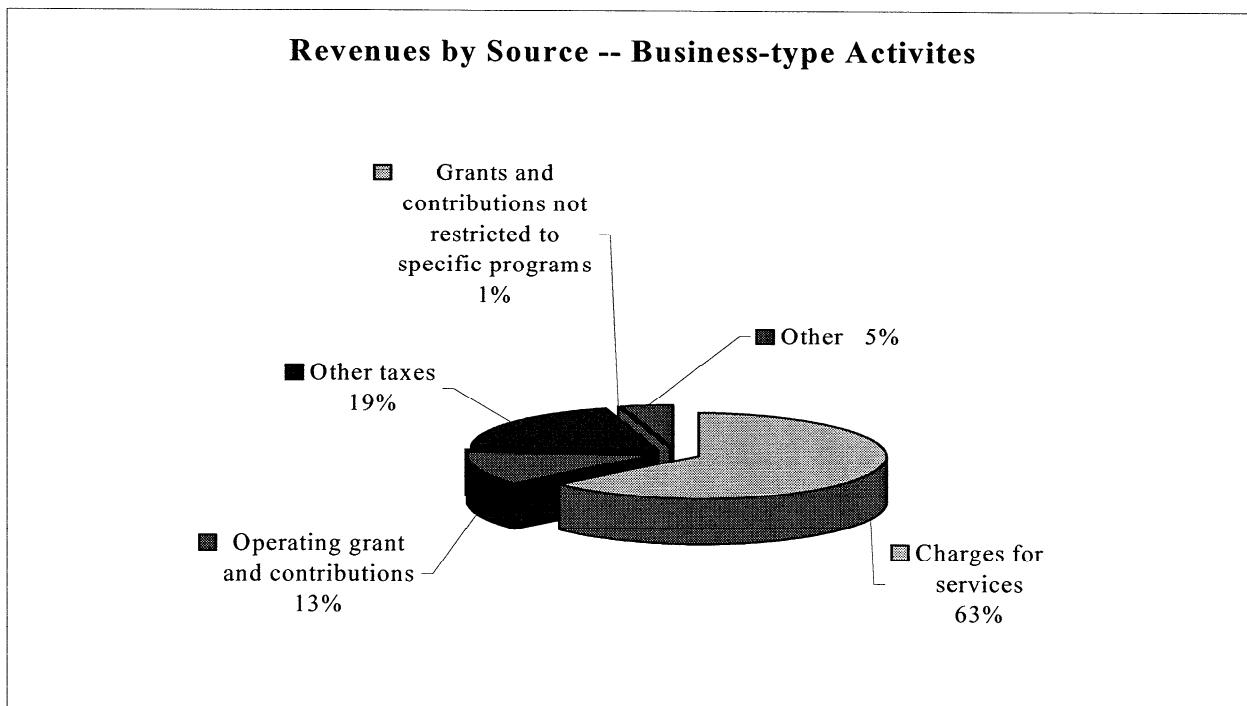


Chart 4 – Revenues by Source – Business-type Activities



Fiduciary Funds

The District is the *trustee* or *fiduciary* for its employees' pension plans. The *Trust and Agency Funds* are used to account for assets held by the District as trustee for individuals, private organizations, or other governments. All fiduciary activities are reported in the Exhibit 4-a, *Statement of Fiduciary Fund Net Assets* and Exhibit 4-b, *Statement of Changes in Fiduciary Fund Net Assets* on pages 43 and 44, respectively. These activities are excluded from the District's other financial statements because these resources are restricted and are therefore not available for financing other operations.

The District's fiduciary funds show total assets of \$ 2,402,303 for its pension trust funds, \$13,820 for its private purpose trust fund, and agency funds of \$107,838 as of September 30, 2003. The fiduciary funds show total liabilities of \$ 182,100 , \$ 48 , and \$107,838, respectively, for pension trust funds, private purpose trust funds and agency funds. The net assets restricted for pension benefits are \$ 2,220,203 , and \$13,772 for private purpose trust funds. Agency funds have no asset balance because these are funds that are being held by the District as an agent for others.

Private-purpose trust funds are used to report any trust arrangement not reported in pension funds or investment trust funds "under which principal and income benefit individuals, private organizations, or other governments." The District offers a tax-advantaged 529 College Savings Investment Plan (named after Section 529 of the Internal Revenue Code). The Plan is designed to help families save for the higher education expenses of designated beneficiaries and is available to D.C. residents as well as non-residents nationwide. This plan is reported in the Private-purpose trust fund, and did not exist last year. Please see Note 1-E, *Fiduciary Funds – Private Purpose Trust Funds* on page 50.

Compared with the previous year, pension trust funds total assets increased by \$442,307, or 22.6%, agency funds total assets decreased by (\$6,415), or (5.6%). Pension trust funds total liabilities increased by \$39,047, or 27.3%, and agency funds total liabilities decreased by (\$6,415), or (5.6%). Agency funds assets and liabilities must always be in balance. Net assets restricted for pension benefits increased by \$403,260, or 22.2% over the previous year. These increases were the result of an improvement in the financial markets and an increase in the prices of securities selected and invested in by fiduciary trust fund managers

General Fund Budget

The originally formulated general fund budget estimated total revenues and other sources of \$3,767,720 and total expenditures and other uses of \$3,767,274, showing a projected budgetary surplus of \$446. The general fund budget was revised, resulting in estimated total revenues and other sources of \$3,840,834 and total expenditures and other uses of \$3,850,405, resulting in a projected budgetary deficit of (\$9,571). Please refer to Table 3, *Fiscal Year 2002 – General Fund Budgetary Highlights* on page 29 for more details.

The District's budget is always subject to revision and/or veto by the United States Congress and President of the United States. As the budget moves through the federal budgetary process, the budget is subject to additions, deletions and changes in both the amounts and the purposes. In addition, as the District's CFO prepares revised revenue estimates, the District must revise the budget submission in order to conform to the new estimates. Before the FY 2002 budget was enacted, the CFO's revised estimates required that the District revise its budget submission. While this does not occur every year, it is always a possibility, dependent upon both the national and the local economies. The budget has to be balanced, as required by U.S. and District Laws.

The fiscal year 2003 budget required significant revisions and \$73,114 was added to the total general fund budgeted revenues which resulted in the revised \$3,840,834 amount. The components of these changes were as follows: property taxes were increased by \$40,261, grants and contributions were increased by \$71,232 and all other sources were increased by \$52,040 for a total increase in these budget elements of \$163,533. These amounts were offset by reductions in other taxes of (\$81,579) and charges for services of (\$8,840), for a total decrease in these budget elements of (\$90,419), and adding up to the overall budget increase of \$73,114. Total general fund budgeted expenditures were revised to \$ 3,850,405 , an increase of \$83,131, which was caused primarily by the shifting of undesignated budget reserves to specific expenditure uses. These revisions resulted in a projected budgetary deficit of \$ (9,571), but were essentially a balanced budget, due to the fact that the U.S. Congress allowed the District to expend FY 2004 funds in advance for public education expenditures. This was done in order to allow the D.C. public school system to speed up the completion of repair and construction projects, and to order needed school supplies for the next school year, prior to the beginning of the fiscal year. Without this advance, the District would have shown a budgetary excess of \$25,394 instead of the deficit of (\$9,571).

Table 3 - Fiscal Year 2003 General Fund Budgetary Highlights

	Budget		Variance	
	Original	Revised	Actual	Over(under)
Revenues and Other Sources:				
Property taxes	\$ 856,811	897,072	901,888	4,816
Other taxes	2,371,016	2,289,437	2,391,486	102,049
Charges for services	294,130	285,290	303,857	18,567
Other sources and contributions	156,378	227,610	164,645	(62,965)
All other sources	89,385	141,425	104,980	(36,445)
Total revenues and other sources	3,767,720	3,840,834	3,866,856	26,022
Expenditures and Other Uses:				
Governmental direction and support	226,319	221,429	209,864	(11,565)
Economic development and regulation	146,328	197,482	135,234	(62,248)
Public safety and justice	611,202	676,700	659,479	(17,221)
Public education system	929,339	888,296	881,760	(6,536)
FY04 public education expenditures	-	34,965	34,965	-
Human support services	1,083,196	1,181,598	1,262,711	81,113
Public works	313,688	319,213	306,668	(12,545)
Other	457,202	330,722	322,491	(8,231)
Total expenditures and other uses	3,767,274	3,850,405	3,813,172	(37,233)
Excess (deficit) -- budgetary basis	\$ 446	(9,571)	53,684	63,255

The actual results for fiscal year 2003 for the general fund were total revenues and other sources of \$ 3,866,856 , which were \$ 26,022 more than the projected amount, or 0.7%. Total actual expenditures and other uses were \$ 3,813,172 , which were \$ (37,233) less than the budgeted amount, or (1.0%). In this case, less expenditures is actually more on a budgetary basis, and the overall result was that the District actually ended up with a general fund budgetary excess, or surplus, of \$ 53,684 , which turned out to be \$ 63,255 more than projected in the revised general fund budget, or 1.6%. Please refer to Exhibit 2-d, *Budgetary Comparison Statement* on page 39 for details of the actual budgetary variances.

Total general fund property and other taxes collected in FY 2003 were \$106,865 more than expected in the District's revised FY 2003 budget, in addition to \$19,930 more in miscellaneous revenues; \$16,455 more from charges for services; \$11,403 in general obligation bonds proceeds; and \$3,970 more in interfund transfers and federal contributions. This was offset by the District collecting (\$63,485) less than expected from other sources; (\$51,298) less in fund balances released from restrictions; (\$15,707) less from fines and forfeitures, and; (\$2,111) less from licensees and permits. The positive variances from taxes and charges for services of \$158,623 more than offset the negative variance from grants and contributions and all other sources of (\$132,601) and resulted in an overall positive variance of \$26,022 in total revenues and other sources.

The majority of the District's funds come from the collection of taxes, along with other local sources, such as licenses and permits, fines and forfeitures and charges for services. The two other main sources of revenues are federal and private resources, which include both contributions and operating grants. In fiscal year 2003, the District originally budgeted for \$47,293 in federal contributions, and subsequently revised its budgeted amount to \$114,431 . The actual federal contribution was \$94,043, which was (\$20,388), or (25.5%) less than budgeted. The District revised its budget for operating grants to \$1,703,554, but only received \$1,447,001, a decrease of (\$256,553), or (15.1%) less than expected. Total federal and private resources were (\$276,941) less than budgeted for, or (14.4%).

Overall, the District is showing a negative variance for total revenues and other sources of (\$250,919) from the budgeted amount of \$5,759,154, or (4.4%). Please see Exhibit 2-d, *Budgetary Comparison Statement* on page 39 for additional details on the District's FY 2003 budgetary results.

Total general fund expenditures in FY 2003 were \$3,813,172, or \$37,233, and 1.0%, more than expected in the District's revised FY 2003 budget. The two largest general fund expenditure variances were the negative variance of (\$81,113) in Human Support Services, and the positive variance of \$62,248 in Economic Development and Regulation. During the time that the District's Department of Mental Health was in Receivership, Medicaid and Medicare receivables were being carried forward each year. A comprehensive analysis of these receivables in FY 2003 resulted in the District's decision this year to write off these uncollectible receivables. The positive economic development and regulation variance is caused primarily by increased economic activity in the District, as more high priced properties change hands, new businesses are established, or current businesses increase their activities and financial resources.

Capital Assets

As of September 30, 2003 the District had \$4,379,361 in governmental activities net capital assets and \$ 4,032 in business-type activities net capital assets, for a total of \$4,383,393 invested in net capital assets. These capital assets include, but are not limited to, land, buildings, police and fire equipment, park facilities, roads and bridges. The governmental activities depreciation charges for the current fiscal year totaled \$ 200,651 . The general capital improvements fund is used to account for the purchase or construction of capital assets financed by transfers, capital grants or debt. Please see Table 4, *Net Capital Assets*, below for more details.

The District's capital assets increased by \$481,081 or 12.3% over its investment in capital assets as of September 30, 2002. This amount was made up of an increase of governmental activities capital assets of \$478,544 or 12.3% and an increase in capital assets from business-type activities of \$2,537, or 169.7% The District's depreciation charges increased by \$45,362, or 29.2%. The District's capital assets are increasing because the District is investing more resources in new and rehabilitated infrastructure, such as roads, bridges and buildings.

The District installed, and began using, a Fixed Asset Module (FAS) in fiscal year 2002. FAS is intended to allow for more accurate and consistent information on the District's capital assets, by requiring agencies that purchase such assets to update the system with type of asset (e.g., land, buildings, equipment, vehicles, etc.) acquisition date, acquisition and/or construction cost, useful life, location, etc. Please see Note 5. - *Capital Assets* for a more complete discussion of the District's capital assets, on pages 67-72.

Table 4 – Net Capital Assets as of September 30, 2003

Asset Category	Business-type				Total	
	Governmental activities		activities			
	2003	2002	2003	2002	2003	2002
Land	\$ 219,076	\$ 219,076	\$ -	\$ -	\$ 219,076	\$ 219,076
Buildings	1,432,360	1,300,191	-	-	1,432,360	1,300,191
Infrastructure	1,360,222	1,172,384	-	-	1,360,222	1,172,384
Equipment	228,902	202,734	4,032	1,495	232,934	204,229
Construction in progress	1,138,801	1,006,432	-	-	1,138,801	1,006,432
Total net capital assets	\$ 4,379,361	\$ 3,900,817	\$ 4,032	\$ 1,495	\$ 4,383,393	\$ 3,902,312

Outstanding Bonds and Notes

At September 30, 2003 the District had a total of \$3,886,519 in general obligation bonds, TIF Bonds and Notes, Qualified Zone Academy Bonds (QZAB), and Tobacco Bonds outstanding. Please refer to Table 5, *Outstanding Bonds and Notes at September 30, 2003*, on page 31. This is an increase of \$ 571,539 over last year's figure of \$ 3,314,980 . This is the result of the District issuing new general obligation bonds, that were offset by payments against matured debt and debt that was defeased, or refinanced, during the year. General obligation bonds represent 83.7% of the District's outstanding bonds and notes, while TIF bonds and notes and QZAB represent 3.3% and Tobacco Bonds Outstanding represent 13.0% of the District's outstanding long-term debt.

The District had \$5,887 of general obligation debt per capita (D.C. resident) as of September 30, 2003, an increase of \$1,071, or 22.2% from the amount on September 30, 2002 of \$4,816 per resident. This increase is due to the District's issuance of additional general obligation debt, and a decrease in the U.S. Census population estimate for the District. Please refer to Exhibit S-14, *Percent of General Obligation Debt to Assessed Value and General Obligation Debt Per Capita* on page 125.

Table 5 – Outstanding Bonds and Notes at September 30, 2003

Governmental Activities			
	2003	2002	
General Obligation Bonds	\$ 3,251,118	\$ 2,670,573	
TIF Bonds and Notes	125,524	126,545	
Qualified Zone Academy Bonds	3,327	3,582	
Tobacco Bonds	506,550	514,280	
Total	\$ 3,886,519	\$ 3,314,980	

Proposed Fiscal Year 2004 Budget

The District submitted its original fiscal year 2004 budget to the President of the United States on June 4, 2003. Please refer to Table 6, *Proposed Fiscal Year 2004 Budget – Revenues and Expenditures by Function*, below. The revised fiscal year 2003 budget requests a total of \$6,223,926 for the District is general, federal and private, and capital projects funds operations. This is made up of \$4,077,273 from local and other funds, \$1,615,802 from federal funds, and \$530,851 from capital projects funds. The total proposed District budget, after including the enterprise and other funds total of \$666,369, is now \$6,890,295.

It is extremely important to note that this budget has not yet been approved and signed into law, and as such, is still subject to revision. In addition, throughout the current fiscal year, both the District, and the federal government, may seek, and obtain, modifications to the fiscal year 2004 budget. The proposed budget is not usually the same budget that is enacted, and the approved budget is not usually the same budget that will complete the fiscal year.

The U.S. House of Representatives (House) and the U.S. Senate (Senate) must first approve the District's budget before it is sent to the President of the United States for his approval and signature. The District is required to submit a balanced budget that is based upon current revenue estimates that must be periodically updated by the District's Chief Financial Officer (CFO). After the District's budget is submitted, it is reviewed and voted upon by both the House and Senate's Budget Committees, in addition to their respective Appropriations Committees. This year, the District's budget was not approved and signed into law before the start of the 2003 fiscal year. The District was therefore required to spend at last year's approved levels until the budget was finally approved and signed into law.

Table 6 – Proposed Fiscal Year 2004 Budget - Revenues and Expenditures by Function

Government Function	General Fund	Federal & Private	Capital Projects	Total
Governmental Direction and Support	\$ 226,975	57,440	127,450	\$ 411,865
Economic Development and Regulation	185,446	91,202	16,921	293,569
Public Safety and Justice	735,660	11,599	34,410	781,669
Public Education System	990,016	178,011	182,194	1,350,221
Human Support Services	1,109,607	1,257,276	105,820	2,472,703
Public Works	321,773	5,274	64,056	391,103
Other	507,796	15,000	-	522,796
Total Governmental Funds - Operating	4,077,273	1,615,802	530,851	6,223,926
Enterprise and Other Funds	666,369	-	-	666,369
Grand Total, District Government	\$ 4,743,642	1,615,802	530,851	\$ 6,890,295

Fiscal Year 2004 Debt Issuances

On December 11, 2003, the District issued its fixed-rate Series 2003B General Obligation Bonds in the aggregate amount of \$173,995 to finance a portion of the District's FY 2004 capital improvements program. Also, on December 11, 2003, the District issued its variable-rate Series 2003C and 2003D Multimodal General Obligation Bond in the aggregate principal amount of \$140,325 to also finance a portion of the District's FY 2004 capital improvements program. The final maturities of the 2003B, 2003C and 2003D Bonds are June 1, 2021, 2028, and 2026, respectively. On December 2, 2003, the District issued fixed-rate General Obligation Tax Revenue Anticipation Notes in the aggregate amount of \$250,000. The proceeds of these notes are being used to fund the District's seasonal cash flow needs. These notes were issued as fixed-rate notes, and mature on September 30, 2004. Please see Note 14-A. *Subsequent Events - Issuance of Bonds, Notes and Other Obligations* on page 90 for additional information.

Bankruptcy of Greater Southeast Community Hospital

On November 20, 2002, the Greater Southeast's parent corporation, Doctors Community HealthCare Corporation and Greater Southeast filed for bankruptcy. As a result, Greater Southeast had to lay off some of its administrative and health care staff. Greater Southeast was the prime contractor for the Healthcare Alliance that was administering the District's Health Care Safety Net program at the time.

The District, the U.S. Center for Medicare and Medicaid services, and the U.S. Bankruptcy Court (Court) made decisions that allowed Greater Southeast to continue operations by releasing funds, or expediting payments, to Greater Southeast to pay essential employees, contractors and vendors, and to give the hospital an opportunity to resolve its financial problems. The subsequent outcome of these decisions has had a tremendous impact on the near-term future and effectiveness of the District's indigent health care system and its costs, and has also seriously impacted other private acute care hospitals located in the District.

In October 2003, the Mayor announced that discussions had begun with Howard University Hospital about the possibility of building a new hospital facility in the area known as Reservation 13, a 67-acre tract in Southeast, D.C. that includes the old D.C. General Hospital campus.

On December 17, 2003, a group led by the founder of Greater Southeast's parent company won the bankruptcy auction for the hospital, and three other hospitals, bidding approximately \$151 million. This bid was selected over the aggregate bids by four individual investor groups. The winning bid must be approved by the U.S. Bankruptcy Court, and a decision is expected in FY 2004. It is not yet decided, or known, what will be the outcome of the District's indigent health care system, including who will manage it, how much it will cost, and the timing and implementation of these decisions.

Contacting the District's Office of the Chief Financial Officer

This CAFR is designed to provide the District's citizens, taxpayers, customers, vendors, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. For additional information on the District's component units: the D.C. Water & Sewer Authority, the Washington Convention Center Authority, the Sports & Entertainment Commission, the Housing Finance Agency and the University of the District of Columbia, please refer to page 49 of the notes to the basic financial statements that has contact information for those organizations. If you have any questions about this report, the District's Fiscal year 2003 CAFR, suggestions for improvement, or need additional financial information, please contact:

The Office of the Chief Financial Officer
The John A. Wilson Building
1350 Pennsylvania Avenue, N.W., Suite 209
Washington, D.C. 20004
(202) 727-2476
www.dccfo.com

BASIC FINANCIAL STATEMENTS

The basic financial statements include two kinds of financial statements that present different views of the District: *Government-Wide Financial Statements* and *Fund Financial Statements*.

These financial statements also include the Notes to the Basic Financial Statements that explain some of the information in the financial statements and provide more detail.

Exhibit 1-a

District of Columbia
Statement of Net Assets
September 30, 2003
(\$000s)

	Primary Government			
	Governmental Activities	Business-Type Activities	Total	Component Units
ASSETS				
Cash and cash equivalents (unrestricted)	\$ 689,795	\$ 23,720	\$ 713,515	\$ 170,024
Investments (unrestricted)	46,141	8,631	54,772	21,807
Due from federal government	416,306	6,828	423,134	43,614
Taxes receivable, net	226,189	-	226,189	-
Accounts receivable, net	112,839	23,134	135,973	51,270
Other receivables	31,083	-	31,083	34,506
Due from primary government	-	-	-	24,962
Due from component units	957	-	957	-
Due from fiduciary funds	742	-	742	-
Internal balances	24,529	(24,529)	-	-
Inventories	14,258	647	14,905	6,913
Other current assets	4,529	14,745	19,274	407
Cash and cash equivalents (restricted)	591,326	297,563	888,889	62,028
Investments (restricted)	-	64,906	64,906	767,305
Notes and loans receivable, net	-	-	-	431,497
Deferred charges	-	-	-	57,883
Depreciable capital assets, net	3,021,484	4,032	3,025,516	2,152,731
Non-depreciable capital assets	1,357,877	-	1,357,877	384,233
Other noncurrent assets	-	-	-	11,426
Total assets	6,538,055	419,677	6,957,732	4,220,606
LIABILITIES				
Accounts payable	559,734	33,148	592,882	143,150
Compensation payable	155,798	1,861	157,659	9,546
Due to primary government	-	-	-	957
Due to component units	24,961	-	24,961	-
Deferred revenue	172,123	271	172,394	39,660
Accrued liabilities	174,518	8,749	183,267	102,207
Accrued interest payable	46,753	-	46,753	-
Other current liabilities	31,846	9,798	41,644	17,019
Long-term liabilities:				
Due within one year	240,678	-	240,678	37,827
Due in more than one year	4,365,833	64,906	4,430,739	2,572,617
Total liabilities	5,772,244	118,733	5,890,977	2,922,983
NET ASSETS				
Invested in capital assets, net of related debt	518,223	1,354	519,577	949,133
Restricted - expendable	841,374	262,148	1,103,522	166,721
Restricted - non-expendable	-	-	-	7,242
Unrestricted	(593,786)	37,442	(556,344)	174,527
Total net assets	\$ 765,811	\$ 300,944	\$ 1,066,755	\$ 1,297,623

The accompanying notes are an integral part of this statement.

Exhibit 1-b

Functions/Programs	Program Revenues					Net (Expense) Revenue and Changes in Net Assets		
	Charges for Services, Fees, Fines & Forfeitures		Operating Grants and Contributions		Governmental Activities		Primary Government Business-type Activities	Totals
	Expenses						Component Units	
Primary government:								
Governmental activities:								
Governmental direction and support	\$ 504,513	\$ 36,189	\$ 62,767	\$ 10,084	\$ (395,473)	\$ (395,473)	\$ (395,473)	\$ (395,473)
Economic development and regulation	252,716	75,540	99,267	-	(77,909)	(77,909)		
Public safety and justice	936,797	39,756	228,665	2,073	(666,303)	(666,303)		
Public education system	1,168,545	45	228,851	1,728	(940,921)	(940,921)		
Human support services	2,572,381	42,180	1,212,654	6,589	(1,311,258)	(1,311,258)		
Public works	312,704	129,251	3,856	155,975	(23,622)	(23,622)		
Public transportation	272,726	-	-	-	(272,726)	(272,726)		
Interest on long-term debt	178,301	-	-	-	(178,301)	(178,301)		
Fiscal charges	20,559	-	-	-	(20,559)	(20,559)		
Total governmental activities	\$ 6,219,742	323,161	1,833,060	176,449	(1,887,072)	(1,887,072)		(3,887,072)
Business-type activities:								
Lottery and games	166,185	237,890	-	-	71,705	71,705		
Unemployment compensation	165,045	-	55,356	-	(109,689)	(109,689)		
Nursing home services	34,587	34,124	-	-	(563)	(563)		
Total business-type activities	\$ 365,917	272,014	55,356	-	(38,547)	(38,547)		
Total primary government	\$ 6,585,659	\$ 593,175	\$ 1,888,416	\$ 176,449	(3,887,072)	(38,547)	(3,925,619)	
Component units:								
Water and sewer	\$ 249,304	\$ 255,795	\$ -	\$ 39,626				
Convention center	65,217	8,889	-	-				
Sports commission	12,340	6,985	-	5,467				
Housing finance	70,276	52,646	-	-				
University	92,901	16,183	20,538	4,432				
Total component units	\$ 490,038	\$ 340,498	\$ 20,538	\$ 49,525				(79,477)
General revenues:								
Taxes:								
Property taxes					899,665	899,665		
Sales and use taxes					779,920	779,920		
Income and franchise taxes					1,167,452	1,167,452		
Gross receipts taxes					261,643	261,643		
Other taxes					273,191	82,626	355,817	
Grants and contributions not restricted to specific programs					25,070	-	25,070	
Investment earnings					13,341	19,332	32,673	15,250
Miscellaneous					330,028	261	330,289	15,232
Subsidy from primary government								
Transfer from lottery and games								
Transfer to nonmajor proprietary funds								
Total general revenues					72,050	(72,050)	-	-
					(34,476)	34,476	-	-
3,787,984					64,645	3,832,529	3,832,529	3,832,529
(99,188)						(73,090)	(73,090)	(73,090)
864,999						274,846	1,139,845	1,139,845
\$ 765,811	\$ 300,944	\$ 1,066,755	\$ 1,066,755	\$ 1,066,755	\$ 1,066,755	\$ 1,066,755	\$ 1,066,755	\$ 1,066,755

The accompanying notes are an integral part of this statement.

Exhibit 2-a

District of Columbia Balance Sheet Governmental Funds September 30, 2003 (\$000s)						
	General	Federal & Private Resources	General Capital Improvements	Nonmajor Governmental Funds	Total Governmental Funds	
ASSETS						
Cash and cash equivalents (unrestricted)	\$ 524,008	\$ 144,171	\$ -	\$ 21,616	\$ 689,795	
Investments (unrestricted)	46,141	-	-	-	46,141	
Accrued interest receivable, net	-	-	-	14	14	
Due from federal government	-	354,289	62,017	-	416,306	
Taxes receivable, net	226,189	-	-	-	226,189	
Accounts receivable, net	86,856	9,098	1,938	3,113	101,005	
Other receivables	-	42,903	-	-	42,903	
Due from component units	957	-	-	-	957	
Due from other funds	255,863	25,086	8,207	-	289,156	
Inventories	13,179	1,079	-	-	14,258	
Other current assets	4,529	-	-	-	4,529	
Cash and cash equivalents (restricted)	467,017	1,470	43,744	79,095	591,326	
Total assets	\$ 1,624,739	\$ 578,096	\$ 115,906	\$ 103,838	\$ 2,422,579	
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable	336,032	96,938	126,674	90	559,734	
Compensation payable	139,108	14,868	1,822	-	155,798	
Due to other funds	721	164,516	90,441	8,207	263,885	
Due to component units	24,961	-	-	-	24,961	
Deferred revenue	103,986	75,869	30,781	-	210,636	
Accrued liabilities	98,767	75,638	-	113	174,518	
Other liabilities	23,807	47	7,992	-	31,846	
Total liabilities	727,382	427,876	257,710	8,410	1,421,378	
Fund balances:						
Reserved for:						
General fund expenditures	568,243	-	-	-	568,243	
Special revenue funds expenditures	-	150,220	-	70,304	220,524	
Capital project expenditures	-	-	27,483	25,124	52,607	
Unreserved, reported in:						
General fund	329,114	-	-	-	329,114	
Special revenue funds	-	-	-	-	-	
Capital projects funds	-	-	(169,287)	-	(169,287)	
Total fund balances	897,357	150,220	(141,804)	95,428	1,001,201	
Total liabilities and fund balances	\$ 1,624,739	\$ 578,096	\$ 115,906	\$ 103,838		
Amounts reported for governmental activities in the statement of net assets (Exhibit 1a) are different because:						
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.					4,379,361	
Adjustments for accrued interest payable					(46,753)	
Adjustments for deferred revenues					38,512	
Long-term Liabilities:						
General obligation bonds				3,251,118		
Tobacco settlement bonds				506,550		
TIF bonds & Notes				125,524		
QZAB				3,327		
Capital leases				90,458		
Other liabilities				629,533		
					(4,606,510)	
Net assets of governmental activities						\$ 765,811

The accompanying notes are an integral part of this statement.

Exhibit 2-b

District of Columbia
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended September 30, 2003
(\$000s)

	General	Federal & Private Resources	General Capital Improvements	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES					
Taxes:					
Property taxes	\$ 901,887	\$ -	\$ -	\$ -	\$ 901,887
Sales and use taxes	779,920	-	-	-	779,920
Income and franchise taxes	1,167,452	-	-	-	1,167,452
Gross receipts taxes	261,643	-	-	-	261,643
Other taxes	273,191	-	-	-	273,191
Fines and forfeits	90,238	-	-	-	90,238
Licenses and permits	62,189	-	-	-	62,189
Charges for services	128,631	42,105	-	-	170,736
Investment earnings	3,948	-	6,320	3,073	13,341
Miscellaneous	202,492	5,531	76,223	45,782	330,028
Federal contributions	-	363,061	176,449	-	539,510
Operating grants	722	1,494,347	-	-	1,495,069
Write-off mental health receivable	-	(99,075)	-	-	(99,075)
Total revenues	3,872,313	1,805,969	258,992	48,855	5,986,129
EXPENDITURES					
Current:					
Governmental direction and support	307,245	108,149	-	197	415,591
Economic development and regulation	135,753	89,058	-	-	224,811
Public safety and justice	656,934	250,736	-	-	907,670
Public education system	921,499	233,798	-	-	1,155,297
Human support services	1,150,016	1,295,320	-	-	2,445,336
Public works	151,191	13,562	-	-	164,753
Public transportation	154,531	-	118,195	-	272,726
Debt service:					
Principal	141,041	-	-	8,751	149,792
Interest and other charges	150,931	-	-	42,708	193,639
Capital outlay	-	-	705,203	56,942	762,145
Total expenditures	3,769,141	1,990,623	823,398	108,598	6,691,760
Excess (deficiency) of revenues over expenditures	103,172	(184,654)	(564,406)	(59,743)	(705,631)
OTHER FINANCING SOURCES (USES)					
Proceeds from sale of bonds	251,345	-	768,528	-	1,019,873
Payment to refunded bond escrow agent	(234,179)	-	-	-	(234,179)
Equipment financing program	-	-	17,094	-	17,094
Transfer in from lottery	72,050	-	-	-	72,050
Transfers out to nonmajor proprietary fund	(34,476)	-	-	-	(34,476)
Transfer in (out)	(99,075)	99,075	-	-	-
Internal transfer in (out)	(26,808)	-	26,510	298	-
Total other financing sources (uses)	(71,143)	99,075	812,132	298	840,362
Net change in fund balances	32,029	(85,579)	247,726	(59,445)	134,731
Fund balances at October 1	865,328	235,799	(389,530)	154,873	866,470
Fund balances at September 30	\$ 897,357	\$ 150,220	\$ (141,804)	\$ 95,428	\$ 1,001,201

The accompanying notes are an integral part of this statement.

Exhibit 2-c

District of Columbia
Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the Year Ended September 30, 2003
 (\$000s)

Net change in fund balances—total governmental funds	\$ 134,731
--	------------

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.

This is the amount by which capital outlays exceeded depreciation expense in the current period. 416,932

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. (2,223)

Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount by which bond proceeds exceeded bond repayments. (571,539)

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. (77,089)

Change in net assets of governmental activities	<u><u>\$ (99,188)</u></u>
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The accompanying notes are an integral part of this statement.

District of Columbia
Budgetary Comparison Statement
Year Ended September 30, 2003
(\$000s)

Exhibit 2-d

Revenue and Other Sources:	General Fund				Federal and Private Resources				Total			
	Budget		Revised		Original		Budget		Original		Budget	
	Original	Revised	Actual	Variance - Positive (Negative)	Original	Revised	Actual	Variance - Positive (Negative)	Original	Revised	Actual	Variance - Positive (Negative)
Taxes:												
Property taxes	\$ 856,811	\$ 897,072	\$ 901,388	\$ 4,816					\$ 856,811	\$ 897,072	\$ 901,388	4,816
Sales and use taxes	703,194	708,647	694,494	(14,153)					703,194	708,647	694,494	(14,153)
Income and franchise taxes	1,156,393	1,125,163	1,167,452	42,289					1,158,393	1,125,163	1,167,452	42,289
Other taxes	509,429	455,627	529,540	323,374	73,913	106,865			509,429	455,627	529,540	73,913
Total taxes	3,227,827	3,186,509	3,293,374						3,227,827	3,186,509	3,293,374	106,865
Licenses and permits	61,724	61,872	88,455	(2,111)					61,724	61,872	88,455	(2,111)
Fines and forfeits	102,300	104,162	59,761	(15,707)					102,300	104,162	59,761	(15,707)
Charges for services	49,309	49,281	65,736	16,455					49,309	49,281	65,736	16,455
Miscellaneous	80,797	69,975	89,905	19,930					80,797	69,975	89,905	19,930
Other sources	156,378	227,610	164,125	(63,485)					156,378	227,610	164,125	(63,485)
Federal contributions	-	-	520	47,293					47,293	47,293	94,431	47,293
Operating grants	-	-	-	1,727,316					1,727,316	1,727,316	1,727,316	1,727,316
General obligation bonds	18,485	11,403	11,403	-					18,485	18,485	-	11,403
Fund balance released from restrictions	70,900	72,825	21,527	(51,298)					70,900	72,825	121,362	(51,298)
Interfund transfer	3,767,720	3,840,834	3,806,836	26,022					3,767,720	3,840,834	3,806,836	26,022
Total revenues and other sources	3,767,720	3,840,834	3,806,836	26,022					3,767,720	3,840,834	3,806,836	26,022
Expenditures and Other Uses:												
Governmental direction and support	226,319	221,429	209,864	11,565					226,319	221,429		
Economic development and regulation	146,328	197,482	135,234	62,248					34,513	247,140		
Public safety and justice	611,202	676,700	659,479	17,221					42,802	247,140		
Public education system	929,339	888,296	881,760	6,536					10,377	623,26		
FY'04 public education expenditure	-	34,965	1,163,636	1,163,598					55,863	1,138,270		
Human support services	1,033,196	1,181,598	99,075	(99,075)					1,199,338	133,006		
Write-off medical health receivable	-	-	306,668	12,545					1,332,344	2,478,818		
Public works	313,688	319,213	2,699	2,699					13,562	16,274		
Workforce investments	48,186	-	-	-					29,336	319,351		
Emergency planning and security costs	-	-	-	-					14,903	48,186		
Reserve	4,194	3,894	3,875	19					10,624	14,903		
Repay bonds and interest	70,000	-	-	-					-	4,194		
Repay deficit bonds and interest	257,951	252,523	250,649	1,874					70,000	3,875		
Interest on short term borrowing	39,300	39,043	39,043	257					-	-		
Certificates of participation	1,000	3,292	3,288	4					39,300	257,951		
Settlements and judgments fund	22,822	23,356	23,356	-					-	250,649		
Non-departmental agency	5,799	-	-	-					1,000	39,300		
Total expenditures and other uses	3,767,274	3,840,405	3,813,172	37,233					1,774,609	1,918,320	1,625,485	292,335
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES--BUDGETARY BASIS	\$ 446	\$ (9,571)	\$ 53,684	\$ 63,255					\$ 1,774,609	\$ 1,918,320	\$ 5,541,833	\$ 5,768,725
Reconcile Budgetary to GAAP Basis:												
Changes in:												
Inventory									3,517			
Net proceeds from refinancing									5,763			
Medicaid accrual									14,807			
Long term receivable reserve									(5,486)			
Tobacco settlement									(9,750)			
All other, net									(94)	47		
Operating cost from enterprise funds									(8,885)			
Fund balance released from restrictions									(21,527)			
EXCESS OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES--GAAP BASIS	\$ 32,029								\$ (100,335)			
									\$ (85,579)			

The accompanying notes are an integral part of this statement.

Exhibit 3-a

District of Columbia
Statement of Net Assets
Proprietary Funds
September 30, 2003
(\$000s)

	Lottery and Games	Unemployment Compensation	Nonmajor Proprietary Funds	Total
ASSETS				
Current assets:				
Cash and cash equivalents (unrestricted)	\$ 10,617	-	\$ 13,103	\$ 23,720
Investments (unrestricted)	8,631	-	-	8,631
Accounts receivable, net	3,221	12,289	7,624	23,134
Due from federal government	-	6,828	-	6,828
Inventories	647	-	-	647
Restricted cash and cash equivalents	-	297,563	-	297,563
Other current assets	12	-	14,733	14,745
Total current assets	<u>23,128</u>	<u>316,680</u>	<u>35,460</u>	<u>375,268</u>
Noncurrent assets:				
Restricted investments	64,906	-	-	64,906
Capital assets, net	1,354	-	2,678	4,032
Total noncurrent assets	<u>66,260</u>	<u>-</u>	<u>2,678</u>	<u>68,938</u>
Total assets	<u>89,388</u>	<u>316,680</u>	<u>38,138</u>	<u>444,206</u>
LIABILITIES				
Current liabilities:				
Accounts payable	2,752	28,836	1,560	33,148
Accrued compensated absences	517	-	1,344	1,861
Due to other funds	-	24,529	-	24,529
Accrued liabilities	8,749	-	-	8,749
Deferred revenue	271	-	-	271
Other current liabilities	8,631	1,167	-	9,798
Total current liabilities	<u>20,920</u>	<u>54,532</u>	<u>2,904</u>	<u>78,356</u>
Noncurrent liabilities:				
Prize annuities payable	64,906	-	-	64,906
Total noncurrent liabilities	<u>64,906</u>	<u>-</u>	<u>-</u>	<u>64,906</u>
Total liabilities	<u>85,826</u>	<u>54,532</u>	<u>2,904</u>	<u>143,262</u>
NET ASSETS				
Invested in capital assets, net of related debt	1,354	-	-	1,354
Restricted - nonexpendable	-	262,148	-	262,148
Unrestricted	2,208	-	35,234	37,442
Total net assets	<u>\$ 3,562</u>	<u>\$ 262,148</u>	<u>\$ 35,234</u>	<u>\$ 300,944</u>

The accompanying notes are an integral part of this statement.

Exhibit 3-b

District of Columbia
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended September 30, 2003
(\$000s)

	<u>Lottery and Games</u>	<u>Unemployment Compensation</u>	<u>Nonmajor Proprietary Funds</u>	<u>Total</u>
Operating revenues:				
Employer taxes	\$ -	\$ 82,626	\$ -	\$ 82,626
Charges for services	237,890	-	34,124	272,014
Benefit contributions:				
Benefit contributions	-	24,885	-	24,885
Miscellaneous	-	-	261	261
Total operating revenues	<u>237,890</u>	<u>107,511</u>	<u>34,385</u>	<u>379,786</u>
Operating expenses:				
Benefits	-	165,045	-	165,045
Prizes	138,256	-	-	138,256
Personnel services	10,003	-	5,584	15,587
Contractual services	12,676	-	-	12,676
Depreciation	372	-	476	848
Miscellaneous	4,878	-	28,627	33,505
Total operating expenses	<u>166,185</u>	<u>165,045</u>	<u>34,687</u>	<u>365,917</u>
Operating income (loss)	<u>71,705</u>	<u>(57,534)</u>	<u>(302)</u>	<u>13,869</u>
Nonoperating revenues (expenses)				
Interest and investment revenue	422	17,850	1,060	19,332
Intergovernmental	-	30,471	-	30,471
Total nonoperating revenue (expenses)	<u>422</u>	<u>48,321</u>	<u>1,060</u>	<u>49,803</u>
Income (loss) before transfers	<u>72,127</u>	<u>(9,213)</u>	<u>758</u>	<u>63,672</u>
Transfers in (out)	(72,050)	-	34,476	(37,574)
Change in net assets	<u>77</u>	<u>(9,213)</u>	<u>35,234</u>	<u>26,098</u>
Total net assets at October 1	3,485	271,361	-	274,846
Total net assets at September 30	<u>\$ 3,562</u>	<u>\$ 262,148</u>	<u>\$ 35,234</u>	<u>\$ 300,944</u>

The accompanying notes are an integral part of this statement.

Exhibit 3-c

District of Columbia
Statement of Cash Flows
Proprietary Funds
For the Year Ended September 30, 2003
(\$000s)

	Lottery and Games	Unemployment Compensation	Nonmajor Proprietary Funds	Total
Operating Activities:				
Cash receipts from customers/employers	\$ 238,731	109,238	\$ 35,095	\$ 383,064
Other cash receipts	655	-	-	655
Cash payments to vendors	(21,355)	-	(41,405)	(62,760)
Cash payments to employees/claimants	(6,553)	(158,850)	(6,014)	(171,417)
Other cash payments, including prizes	(137,311)	-	-	(137,311)
Net cash provided by (used in) operating activities	<u>74,167</u>	<u>(49,612)</u>	<u>(12,324)</u>	<u>12,231</u>
Capital and Related Financing Activities:				
Acquisitions of capital assets	(231)	-	(864)	(1,095)
Net cash used by capital and related financing activities	<u>(231)</u>	<u>-</u>	<u>(864)</u>	<u>(1,095)</u>
Noncapital Financing Activities:				
Inergovernmental grants	-	30,471	-	30,471
Interfund transfers out	(72,050)	-	-	(72,050)
Net cash provided by (used for) noncapital financing activities	<u>(72,050)</u>	<u>30,471</u>	<u>-</u>	<u>(41,579)</u>
Investing Activities:				
Receipts of interest and dividends	422	17,850	2,453	20,725
Net cash provided by investing activities	<u>422</u>	<u>17,850</u>	<u>2,453</u>	<u>20,725</u>
INCREASE (DECREASE) IN CASH	2,308	(1,291)	(10,735)	(9,718)
Cash and cash equivalents at October 1	8,309	298,854	23,838	331,001
Cash and cash equivalents at September 30	\$ 10,617	\$ 297,563	\$ 13,103	\$ 321,283
Reconciliation of Operating Income to				
Net Cash Provided by (used for) Operating Activities:				
Operating income (loss)	\$ 71,705	\$ (57,534)	\$ (302)	\$ 13,869
Depreciation	372	-	1,117	1,489
Miscellaneous nonoperating revenues	-	-	63	63
Purchases of capital assets	-	-	-	-
Decrease (increase) in assets:				
Accounts receivable	1,356	1,727	(414)	2,669
Inventories	36	-	-	36
Other current assets	(7)	-	(189)	(196)
Increase (decrease) in liabilities:				
Accounts payable	(183)	5,506	(12,599)	(7,276)
Accrued liabilities	736	-	-	736
Deferred revenue	140	-	-	140
Other current liabilities	12	689	-	701
Net Cash Provided by (used for) Operating Activities:	\$ 74,167	\$ (49,612)	\$ (12,324)	\$ 12,231

The accompanying notes are an integral part of this statement.

Exhibit 4-a

District of Columbia
Statement of Fiduciary Fund Net Assets
September 30, 2003
(\$000s)

	Pension Trust Funds	Private Purpose Trust Fund	Agency Funds
ASSETS			
Cash and cash equivalents - restricted	\$ 386,853	\$ -	\$ 106,937
Investments - restricted	2,012,544	13,798	-
Receivables			
Interest and dividends	-	1	-
Other receivables	2,860	21	-
Due from other fund	46	-	-
Other current assets	-	-	901
Total assets	2,402,303	13,820	107,838
LIABILITIES			
Accounts payable	12,325	48	11,758
Due to other funds	741	-	46
Securities lending	169,034	-	-
Other current liabilities	-	-	96,034
Total liabilities	182,100	48	\$ 107,838
NET ASSETS			
Restricted for pension benefits and other purposes (A schedule of funding progress for each plan is presented on page 91)	<u>\$ 2,220,203</u>	<u>\$ 13,772</u>	

The accompanying notes are an integral part of this statement.

Exhibit 4-b

District of Columbia
Statement of Changes in Fiduciary Fund Net Assets
For The Year Ended September 30, 2003
(\$000s)

	Pension Trust Funds	Private Purpose Trust Fund
ADDITIONS		
Contributions:		
Employer	\$ 68,900	\$ -
Plan members	45,914	13,161
Total contributions	<u>114,814</u>	<u>13,161</u>
Investment earnings:		
Net increase in fair value of investments	253,498	876
Interest and dividends	55,321	128
Total investment earnings	<u>308,819</u>	<u>1,004</u>
Less investment expense	6,703	86
Net investment earnings	<u>302,116</u>	<u>918</u>
Total additions	<u>416,930</u>	<u>14,079</u>
DEDUCTIONS		
Benefits payments	11,191	-
Distributions to participants	-	299
Administrative expenses	2,479	8
Total deductions	<u>13,670</u>	<u>307</u>
Change in net assets	<u>403,260</u>	<u>13,772</u>
Net assets at October 1	1,816,943	-
Net assets at September 30	<u>\$ 2,220,203</u>	<u>\$ 13,772</u>

The accompanying notes are an integral part of this statement.

Exhibit 4-c

DISTRICT OF COLUMBIA

STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUNDSFor The Year Ended September 30, 2003
(\$000s)

	Balance October 1, 2002	Additions	Deductions	Balance September 30, 2003
ASSETS				
Cash and cash equivalents	\$ 105,022	1,410,486	1,408,571	106,937
Other current assets	9,231	1,020,727	1,029,057	901
Total assets	\$ 114,253	2,431,213	2,437,628	107,838
LIABILITIES				
Accounts payable	\$ 44,010	88,943	121,195	11,758
Other current liabilities	70,156	396,511	370,633	96,034
Due to other fund	87	125	166	46
Total liabilities	\$ 114,253	485,579	491,994	107,838

The accompanying notes are an integral part of this statement.

Exhibit 5-a

District of Columbia
Discretely Presented Component Units

Combining Statement of Net Assets

September 30, 2003
(\$000s)

	Water and Sewer	Convention Center	Sports Commission	Housing Finance	University	Totals
ASSETS						
Current Assets:						
Cash and cash equivalents (unrestricted)	\$ 131,078	\$ 4,715	\$ 3,191	\$ 14,677	\$ 16,363	\$ 170,024
Investments (unrestricted)	14,978	4,503	2,326	-	-	21,807
Receivables, net:						
Accounts	41,406	932	1,234	-	7,698	51,270
Other	33,706	187	-	562	51	34,506
Due from federal government	41,454	-	-	-	2,160	43,614
Due from primary government	17,740	5,506	-	-	1,716	24,962
Inventories	6,913	-	-	-	-	6,913
Other current assets	150	-	179	-	78	407
Restricted cash	46,825	1,822	-	10,245	3,136	62,028
Restricted investments	37,084	76,727	5,230	625,664	22,600	767,305
Total current assets	<u>371,334</u>	<u>94,392</u>	<u>12,160</u>	<u>651,148</u>	<u>53,802</u>	<u>1,182,836</u>
Noncurrent Assets:						
Loans receivable	-	-	-	431,062	435	431,497
Other	-	-	-	11,426	-	11,426
Deferred charges	32,886	8,901	-	16,096	-	57,883
Total long term assets	<u>32,886</u>	<u>8,901</u>	<u>-</u>	<u>458,584</u>	<u>435</u>	<u>500,806</u>
Capital assets, net:						
Property and equipment	<u>1,650,941</u>	<u>811,098</u>	<u>13,601</u>	<u>2,989</u>	<u>58,335</u>	<u>2,536,964</u>
Total assets	<u>2,055,161</u>	<u>914,391</u>	<u>25,761</u>	<u>1,112,721</u>	<u>112,572</u>	<u>4,220,606</u>
LIABILITIES						
Current Liabilities:						
Payables:						
Accounts	78,069	36,647	966	1,882	25,586	143,150
Compensation	7,941	1,060	333	212	-	9,546
Due to primary government	154	-	803	-	-	957
Accrued liabilities	20,061	12,976	2,384	64,392	2,394	102,207
Deferred revenue	20,015	11,939	527	2,627	4,552	39,660
Current maturities	15,892	10,225	-	11,710	-	37,827
Other current liabilities	-	6,341	-	10,678	-	17,019
Total current liabilities	<u>142,132</u>	<u>79,188</u>	<u>5,013</u>	<u>91,501</u>	<u>32,532</u>	<u>350,366</u>
Noncurrent Liabilities:						
Long term debt:						
Bonds payable	510,010	508,404	-	908,663	-	1,927,077
Other long term liabilities	15,671	13,469	-	32,344	-	61,484
Refundable advances	-	-	-	-	681	681
Deferred revenue	583,375	-	-	-	-	583,375
Total long term liabilities	<u>1,109,056</u>	<u>521,873</u>	<u>-</u>	<u>941,007</u>	<u>681</u>	<u>2,572,617</u>
Total liabilities	<u>1,251,188</u>	<u>601,061</u>	<u>5,013</u>	<u>1,032,508</u>	<u>33,213</u>	<u>2,922,983</u>
NET ASSETS						
Invested in capital assets, net of related debt	588,294	287,902	13,601	1,000	58,336	949,133
Restricted - expendable	27,394	78,549	5,230	55,336	212	166,721
Restricted-non-expendable	-	-	-	-	7,242	7,242
Unrestricted	188,285	(53,121)	1,917	23,877	13,569	174,527
Total net assets	<u>\$ 803,973</u>	<u>\$ 313,330</u>	<u>\$ 20,748</u>	<u>\$ 80,213</u>	<u>\$ 79,359</u>	<u>\$ 1,297,623</u>

The accompanying notes are an integral part of this statement.

Exhibit 5-b

District of Columbia
Discretely Presented Component Units

**Combining Statement of Revenues, Expenses,
and Changes in Net Assets**

For The Year Ended September 30, 2003
(\$000s)

	Water and Sewer	Convention Center	Sports Commission	Housing Finance	University	Totals
Operating Revenues:						
Charges for services:						
Public	\$ 212,839	\$ 8,889	\$ 6,985	\$ 52,646	\$ 16,183	\$ 297,542
Intergovernmental	42,956	-	-	-	-	42,956
Federal & local grants & contributions	-	-	-	-	20,538	20,538
Miscellaneous	-	476	-	13,161	880	14,517
Total operating revenues	<u>255,795</u>	<u>9,365</u>	<u>6,985</u>	<u>65,807</u>	<u>37,601</u>	<u>375,553</u>
Operating Expenses:						
Personal services	64,091	14,138	3,978	3,353	58,680	144,240
Contractual services	63,065	10,399	5,068	4,150	14,083	96,765
Supplies	14,768	569	398	-	4,952	20,687
Occupancy	20,804	5,887	923	4,613	2,887	35,114
Scholarships	-	-	-	-	7,045	7,045
Depreciation	39,524	14,123	1,926	256	4,905	60,734
Miscellaneous	13,723	154	47	20,446	349	34,719
Total operating expenses	<u>215,975</u>	<u>45,270</u>	<u>12,340</u>	<u>32,818</u>	<u>92,901</u>	<u>399,304</u>
OPERATING INCOME (LOSS)	39,820	(35,905)	(5,355)	32,989	(55,300)	(23,751)
Nonoperating Revenues:						
Intergovernmental	-	58,905	-	-	50,544	109,449
Interest revenue	3,090	1,002	118	9,023	2,017	15,250
Other	-	-	-	-	715	715
Total nonoperating revenues	<u>3,090</u>	<u>59,907</u>	<u>118</u>	<u>9,023</u>	<u>53,276</u>	<u>125,414</u>
Nonoperating Expenses:						
Interest expense	17,816	13,154	-	36,999	-	67,969
Program and housing assistance payments	-	-	-	-	-	-
Other expenses	15,513	6,793	-	459	-	22,765
Total nonoperating expenses	<u>33,329</u>	<u>19,947</u>	<u>-</u>	<u>37,458</u>	<u>-</u>	<u>90,734</u>
Total nonoperating revenues (expenses)	(30,239)	39,960	118	(28,435)	53,276	34,680
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS	9,581	4,055	(5,237)	4,554	(2,024)	10,929
Capital contributions	<u>39,626</u>	<u>-</u>	<u>5,467</u>	<u>-</u>	<u>4,432</u>	<u>49,525</u>
Change in net assets	49,207	4,055	230	4,554	2,408	60,454
Net assets						
at October 1	<u>754,766</u>	<u>309,275</u>	<u>20,518</u>	<u>75,659</u>	<u>76,951</u>	<u>1,237,169</u>
Net assets						
at September 30	\$ 803,973	\$ 313,330	\$ 20,748	\$ 80,213	\$ 79,359	\$ 1,297,623

The accompanying notes are an integral part of this statement.

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NOTES TO THE BASIC FINANCIAL STATEMENTS

SEPTEMBER 30, 2003

(Amounts expressed in thousands)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. BACKGROUND AND HISTORY OF GOVERNMENTAL UNIT

General Operations

The District of Columbia (District) was created on March 30, 1791 and became the Nation's capital on December 1, 1800, in accordance with Article 1, section 8, clause 17 of the United States Constitution. This portion of the Constitution empowered Congress to establish the seat of government for the United States. On January 2, 1975, Congress granted the District a Home Rule Charter, which became effective through the enactment of the District of Columbia Self-Government and Governmental Reorganization Act, Public Law 93-198.

The District is a municipal corporation, which operates under an elected Mayor-Council form of government. Accordingly, an Act of the Council, other than a budget request act, becomes a law unless Congress and the President disapprove it after it has been adopted. Citizens of the District have the right to vote for the President and Vice-President of the United States but not for members of Congress. The District does, however, have an elected nonvoting delegate to the United States House of Representatives.

Due to its unique organizational structure (i.e., not a part of any other state government), the District provides a broad range of services to its residents, including those normally provided by a state. These services include public safety and protection, fire and emergency medical services, human support and welfare services, public education and many others.

B. FINANCIAL REPORTING ENTITY

A financial reporting entity consists of a primary government and its component units. The primary government is the District of Columbia, including all of the organizations that make up its legal entity. Criteria to be considered in determining organizations to be included as component units within the District's reporting entity are as follows:

- The District holds the corporate powers of the organization.

- The District appoints a voting majority of the organization's board.
- The District is able to impose its will on the organization.
- The organization has the potential to impose a financial burden on, or provide financial benefit to the District.
- The organization is fiscally dependent on the District.
- It would be misleading to exclude the organization from the District's financial statements.

Based on the aforementioned criteria, the District's financial statements include five discretely presented component units: Water and Sewer Authority, Washington Convention Center, Sports and Entertainment Commission, Housing Finance Agency, and the University of the District of Columbia. These organizations are presented in a separate column to emphasize that they are legally separate from the District.

The Mayor, with the consent of the Council, and other District officials appoint the governing bodies of all component units. The District has an obligation to provide financial support to the Housing Finance Agency and the University of the District of Columbia. In addition, the District must approve certain transactions of the Convention Center and the Sports and Entertainment Commission, and certain tax revenues are dedicated to these organizations. The Water and Sewer Authority is responsible for the payment of certain District long-term debt issued before that entity's creation to finance capital improvements for its predecessor agency. For that reason, in conjunction with the fact that the Water and Sewer Authority is an independent authority under its enabling legislation, this entity is included as a component unit of the District of Columbia. Information on how to obtain a complete set of financial statements for each entity can be obtained at the following locations:

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Washington Convention Center Authority
 General Manager
 801 Mount Vernon Place, N.W.
 Washington, D. C. 20001

Housing Finance Agency
 Executive Director
 815 Florida Avenue, N.W.
 Washington, D. C. 20001

Sports and Entertainment Commission
 General Manager
 2001 East Capitol Street, S.E.
 Washington, D. C. 20003

University of the District of Columbia
 President
 Van Ness Campus
 4200 Connecticut Avenue, N.W.
 Washington, D. C. 20008

Water and Sewer Authority
 General Manager
 5000 Overlook Avenue, S.W.
 Washington, D. C. 20032

The District established the District of Columbia Tobacco Settlement Financing Corporation (the "Tobacco Corporation") as a special purpose, independent instrumentality of the District government. The Tobacco Corporation is a blended component unit because it provides services exclusively to the District, and the District appoints all members of the governing body of the Corporation. The members have the ability to modify or approve the budget of the organization, appoint, hire, reassign, or dismiss those persons responsible for the day-to-day operations (management) of the organization, and thus is able to impose its will. Separate audited financial statements for the Tobacco Corporation are available from the Office of the Chief Financial Officer, 1350 Pennsylvania Avenue, N.W. Suite 209, Washington, D.C. 2004.

C. RELATED ORGANIZATIONS

A related organization is one for which the primary government is accountable but not *financially accountable*. The District of Columbia Housing Authority, the National Capital Revitalization Corporation, and the District of Columbia Courts are related organizations because the District is not financially accountable for them despite the fact the Mayor appoints a voting majority of their governing boards, except the Courts. The District does not appoint the members of the Joint Committee on Judicial Administration.

D. JOINT VENTURE

The District is a participant with other local jurisdictions in a joint venture to plan, construct, finance and operate a public transit system serving the Metropolitan Washington Area Transit Zone, which includes the

District of Columbia; the cities of Alexandria, Falls Church, Fairfax, Manassas and Manassas Park and the counties of Arlington, Fairfax, Loudoun and Prince William in Virginia and Montgomery, Anne Arundel and Prince George's in Maryland. The Washington Metropolitan Area Transit Authority (WMATA) was created in February 1967 for that purpose. WMATA is governed by a six member Board and six alternates, composed of two Directors and two alternates each from Maryland, Virginia and the District of Columbia. The Directors and alternates for Virginia are appointed by the Northern Virginia Transportation Commission from among its members; for the District of Columbia, by the Council from its members and mayoral nominees; and for Maryland, by the Washington Suburban Transit Commission from among its members. Further information regarding this joint venture is discussed in Note 10.

E. BASIS OF PRESENTATION

Government-Wide Financial Statements — The government-wide financial statements report information on all of the non-fiduciary activities of the Primary Government and its component units. Since by definition, assets of fiduciary funds are being held for the benefit of a third party and cannot be used to address activities or obligations of the District, these funds are not incorporated into the government-wide statements. Governmental activities of the Primary Government, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The following two statements are included in the government-wide statements:

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- *Statement of Net Assets* – The Statement of Net Assets displays the financial position of the District (governmental and business-type activities) and its discretely presented component units. The District reports all capital assets, including infrastructure, in the government-wide Statement of Net Assets. The net assets of a government is broken down into these three categories – 1) invested in capital assets, net of related debt; 2) restricted; and 3) unrestricted.
- *Statement of Activities* – The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include fines and forfeitures, charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported as general revenues. The District reports depreciation expense, the cost of “using up” capital assets in the Statement of Activities.

Fund Financial Statements - Fund accounting is used to demonstrate legal compliance and to aid financial management by segregating transactions related to certain District functions or activities. Each fund is considered to be a separate accounting entity and the transactions in each are summarized by providing a separate set of self-balancing accounts which include its assets, liabilities, fund equity, revenues and expenses/expenditures.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though fiduciary funds are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Governmental Funds are used to account for all of the District's general activities. The acquisition, use and balances of the District's expendable financial resources and the related liabilities (except those accounted for in the Proprietary Funds and the discretely presented component units) are accounted for in the Governmental Funds. The District reports the following major governmental funds:

- *General Fund*, used to account for all financial resources not accounted for in other funds.

- *Federal and Private Resources Fund*, used to account for proceeds of intergovernmental grants and other federal payments and private grants that are legally restricted to expenditure for specified purposes.
- *General Capital Improvements Fund*, used to account for the purchase or construction of capital assets financed by operating transfers, capital grants or debt.
- *Non-Major Governmental Funds* includes two Special Revenue Funds: (1) Tax Increment Financing (TIF) Program Fund and (2) Tobacco Settlement Financing Corporation (TSFC) Fund; and one Capital Projects Fund: Highway Trust Fund.

Proprietary Funds are used to account for activities similar to those found in the private sector where the costs (including depreciation) of providing goods or services primarily or solely to the public on a continuing basis are, or could be, financed or recovered primarily through user charges, and the determination of net income is necessary or useful to sound financial administration. The District has two major proprietary funds, which are discussed below:

- *Lottery and Games Fund* - Used to account for revenues from lotteries and daily numbers games operated by the District and from licenses to conduct bingo games and raffles, and related prizes, expenses and capital outlays. Gaming activities are administered by a Lottery and Charitable Games Control Board consisting of five members appointed by the Mayor with the consent of the Council.
- *Unemployment Compensation Fund* - Used to account for the accumulation of resources to be used for benefit payments to unemployed former employees of the District and federal government and of private employers in the District. Resources are contributed by private employers at rates fixed by law, and by the District and federal government on a reimbursable basis. The administrative costs of the program are accounted for in the General Fund.
- *Non-Major Proprietary Fund* - Used to account for the operations of the Washington Center for Aging Services, the Washington Center for Aging Services Center Care, and JB Johnson Nursing Center

Fiduciary Funds are used to account for assets held by the District in a trustee capacity or as an agent for individuals, private organizations and other governments. The District reports Pension Trust Funds, Agency Funds and a Private Purpose Trust Fund.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- *Pension Trust Funds* are accounted for in essentially the same manner as proprietary funds since capital maintenance is critical.
- *Private Purpose Trust Funds* are used to report any trust arrangement not reported in pension trust funds “under which principal and income benefit individuals, private organizations, or other governments.” The District offers a tax-advantaged 529 College Savings Investment Plan (named after Section 529 of the Internal Revenue Code) The Plan is designed to help families save for the higher education expenses of designated beneficiaries and is available to DC residents as well as non-residents nationwide. The private-purpose trust funds are accounted for in the same manner as proprietary funds since capital maintenance is critical
- *Agency Funds* are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

Fiduciary funds are not included in the government-wide financial statements since the resources cannot be used for operations of the government.

F. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures/expenses are recognized in the accounts and reported in the financial statements. Thus, the accounting and financial reporting treatment applied to a fund or activity is determined by its measurement focus.

Measurement Focus

All governmental funds are accounted for using a flow of current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, generally, only current assets and current liabilities are included on the balance sheet. Operating statements of these funds present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets.

The proprietary funds, pension and private purpose trust funds, discretely presented component units, and the government-wide financial statements are accounted for on a flow of economic resources measurement focus and the accrual basis of accounting. With this measurement focus, all assets and all liabilities are included on the

statement of net assets. Net assets of the government-wide and proprietary funds are segregated into capital assets, net of related debt, restricted and unrestricted components. The related operating statements present increases (revenues) and decreases (expenses) in net assets. Operating statements of pension and private purpose trust funds present additions and deductions in fiduciary net assets.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board (GASB). The District also has the option of following private-sector guidance issued after November 30, 1989 for its business-type activities and proprietary funds and component units. As allowed by GASB 20, the District has elected to follow only those Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARB), issued prior to December 1, 1989.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments in-lieu-of taxes and other charges between the government's water and sewer component unit and various other functions of the government.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations.

Basis of Accounting

All governmental funds use the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (that is when they become both measurable and available.) "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Property taxes are considered available if they are collected within 60 days after year-end. A one-year availability period is used for revenue recognition for all other governmental fund revenues. Expenditures are recorded when the related fund liability is incurred. GASB Interpretation Number 6 (GASB 6) requires that expenditures and liabilities such as debt service, compensated absences, claims and judgments, and special

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

termination benefits be recorded in the governmental fund statements only when they mature or become due for payment within the period. Such activity is recorded in the government-wide financial statements as incurred.

Those revenues susceptible to accrual are taxes, federal contributions and grants, charges for services and investment income. Property taxes are recognized as revenue in the tax year for which they are levied, provided they are available. Real property taxes are levied as of October 1 on property values assessed as of the preceding January 1. The tax levy is due and collectible in two equal installments on March 31 and September 15. On these dates, the bill becomes delinquent and the District may assess penalties and interest. Real property taxes attach as an enforceable lien on property as of October 1 of the year after levy. Sales and use taxes are recognized as revenue when the sales or uses take place. Interest on investments is recognized when earned. Charges for services are recorded as revenues as services are provided.

In the District, the personal property tax is self-assessed. The District requires a personal property tax return for the tax year beginning July 1 - June 30 each year to be filed on or before July 31 of that tax year. The return should report the remaining cost (current value) of all tangible personal property that has taxable sites in the District of Columbia as of July 1. The property taxes become levied once the returns are filed. However, the District does not have a legal claim to a provider's resources that is enforceable through the eventual seizure of the property until after July 31 if the taxpayer fails to pay the property tax when due. The revenue budget for the Personal Property Tax is formulated with the understanding that 25% of collections are to be allocated to the current fiscal year, while the remaining 75% are to be allocated to the immediate subsequent fiscal year.

Intergovernmental revenues are amounts derived through agreements with other governments. In general, these revenues are comprised of contributions and grants made by the Federal government to the District. Contributions are recognized as revenue when received. Generally, entitlements and shared revenues are recognized as revenue when received or earlier, if measurable and available. Resources arising from grants are usually subject to certain eligibility requirements; therefore, most grant revenues are recognized as revenue only when the conditions of the grant are met. Grant funds received before all eligibility requirements are met are recorded as deferred revenue.

Licenses and permits, fines and forfeits are not considered susceptible to accrual because they are not both measurable and available to finance expenditures of the

current period. Licenses and permits and fines and forfeits are recorded as revenue when received in cash because they are generally not measurable until received.

The government-wide financial statements, proprietary funds, and pension and private purpose trust funds use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time the liabilities are incurred. The pension trust funds recognize additions to net assets from participants' contributions when due, District contributions when due and a formal commitment has been made, net investment income as earned, and expenditures for benefits and refunds when due and payable. The private purpose trust fund recognizes additions to net assets when participants' contributions are received.

Food Stamps

The District participates in the federal government's food stamp program, which is designed to increase the food purchasing power of economically disadvantaged residents. The District mainly uses the Electronic Benefits Transfer (EBT) system that allows program beneficiaries to charge their qualifying food purchases, thereby eliminating the need for paper stamps. Thus, revenues and expenditures are reported in the General Fund when the underlying transaction (the food purchase) occurs.

G. BASIS OF BUDGETING AND BUDGETARY CONTROL POLICIES

Process

About February 1 of each year, the Mayor submits to the Council an all sources budget for the General Fund, for the fiscal year commencing the following October 1. The Council holds public hearings and adopts the budget through passage of a budget request act. The Mayor may not forward and the Council may not adopt any budget for which expenditures and other financing uses exceed revenues and other financing sources. A project-length financial plan is adopted for the General Capital Improvements Fund. About April 1 of each year, the Mayor approves the adopted budget and forwards it to the President of the United States for review. About April 15 of each year, the President submits the reviewed budget to Congress which conducts public hearings and enacts the budget and the authorized Federal payment in-lieu-of taxes through passage of an appropriation law.

Appropriation Act

The legally adopted budget is the annual appropriation public law (Appropriation Act) enacted by Congress and

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

signed by the President. The Appropriation Act authorizes expenditures at the function level or by functional category, such as Public Safety and Justice, Human Support Services or Public Education. Congress must enact a revision that alters the total expenditures of any function. The District may request a revision to the appropriated expenditure amounts in the Appropriation Act by submitting to the President and Congress a request for a supplemental appropriation.

Pursuant to the Reprogramming Policy Act (D. C. Code 47-361), the District may reallocate budget amounts within functions. The appropriated budget amounts in the Budgetary Comparison Statement include all approved reallocations. This statement reflects budget to actual comparisons at the function level (or appropriation title). Appropriated actual expenditures and uses may not legally exceed appropriated budgeted expenditures and uses at the function level as shown on this statement. A negative expenditure variance in the budgetary comparison statement for a function is a violation of the Anti-Deficiency Act (31 U.S.C. 1341). Also, a violation of the Anti-Deficiency Act exists if there is a negative expenditure variance for a particular purpose or object of expenditure within an appropriation.

The Appropriation Act specifies expenditures and net surplus or deficit of revenues. The Appropriation Act does not specify revenue amounts. The legally adopted revenue budget is based primarily on the revenue estimates submitted to the President and Congress as modified through legislation. The Budgetary Comparison Statement shows Revenues and Other Sources as presented in the Conference Report (H.R. 107-593) and Expenditures and Other Uses as contained in the Appropriation Act (PL 107-96.)

The budgetary general fund differs from the GAAP- basis general fund and federal and private resources fund because the latter - the GAAP basis general and federal and private resources funds - focus on economic resources, while the budgetary general fund is prepared using modified accrual basis. For budgetary purposes, the general fund must be considered in conjunction with the federal and private resources major fund as presented in Exhibit 2-d. The District separated the federal and private resources fund from the general fund in order to enhance stakeholders understanding of the general operations of the District. The annual appropriated budget is prepared largely on a modified accrual basis because certain revenues are allowed by law to be collected after the fiscal year and used to pay the liabilities of the current year. These revenues include property taxes. Although, certain budgeting for inventory, Medicaid, certain pension and other employee benefits, and other expenditures are budgeted on a cash basis, these are immaterial.

Adjustments necessary to reconcile the excess (deficiency) of revenues and other financing sources over expenditures and other financing uses from budget basis to GAAP basis are shown in Exhibit 2-d, Budgetary Comparison Statement.

Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of funds are recorded in order to reserve that portion of the appropriation, is employed in the governmental funds. Encumbrances outstanding at year-end do not constitute expenditures or liabilities for GAAP or budgetary purposes. All encumbrances lapse in the General Fund at year end, and may automatically be re-appropriated and re-encumbered as part of the subsequent year's budget. The fund balance is "reserved for encumbrances" to indicate the portion that is available for expenditure upon vendor performance.

H. CASH AND INVESTMENTS

Cash

Cash from the governmental and proprietary funds and certain component units is pooled unless prohibited by law. The cash management pool is considered to be cash because it is used as a demand deposit account by each participating fund and component unit. If a fund overdraws its share of the pooled cash, that fund reports a liability to the general fund, which is deemed to have loaned the cash to the overdrawn fund. The general fund reports a receivable from the overdrawn fund.

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and mature in such a short period of time that their values are effectively immune from changes in interest rates. The District's cash management pool is considered a cash equivalent. For an investment to be considered a cash equivalent, it must mature no more than three months after the date it is purchased.

Investments

Any cash that is not needed for immediate disbursement is used to purchase investments. The District purchases legally authorized investments consistent with the provisions of the "Financial Institutions Deposit and Investment Amendment Act of 1997" (D.C. Law 12-56), which became effective March 18, 1998. At September 30, 2003 the District has invested primarily in investments backed by U.S. government agencies' securities, with the implicit guarantee of the federal

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

government. Such investments are considered to be the equivalents of cash. The Pension Trust Funds are authorized to invest in fixed income, equity securities and other types of investments. Also, the Private Purpose Trust Fund is authorized to invest in eight portfolios which are comprised of equities, balanced fund, and fixed income securities.

Money market investments that have a remaining maturity at the time of purchase of one year or less are reported at amortized cost, which approximates fair value. Other investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Asset-backed securities are valued on the basis of future principal and interest payments and are discounted at prevailing interest rates for similar investments. Investment purchases and sales are recorded as of the trade date. These transactions are not finalized until the settlement date. Cash received as collateral on securities lending transactions and investments made with such are reported as assets and as related liabilities for collateral received.

I. NEW ACCOUNTING STANDARDS ADOPTED

In fiscal year 2003, the District adopted three new statements and a Technical Bulletin of financial accounting standards issued by the Government Accounting Standards Board (GASB):

- Statement No. 39 (*Determining Whether Certain Organizations Are Component Units, an amendment of GASB Statement No. 14*).
- Statement No. 40 (*Deposit and Investment Risk Disclosures, an amendment of GASB Statement No. 3*)
- Statement No. 41 (*Budgetary Comparison Schedules –Perspective Differences, an amendment of GASB Statement No. 34*)
- Technical Bulletin No. 2003-1 (*Disclosure Requirements for Derivatives Not Reported at Fair Value on the Statement of Net Assets*)

In May 2002, the GASB issued Statement 39 (*Determining Whether Certain Organizations Are Component Units*). This statement amends GASB 14 to provide additional guidance to determine whether certain organizations for which the primary government is not financially accountable should be reported as component units based on the nature and significance of their

relationship with the primary government. Generally, it requires reporting as a component unit, an organization that raises and holds economic resources for the direct benefit of a governmental unit.

The Statement continues the requirement in Statement No. 14 to apply professional judgment in determining whether the relationship between a primary government and other organizations for which the primary government is not financially accountable and that do not meet these criteria is such that exclusion of the organization would render the financial statements of the reporting entity misleading or incomplete. Those component units should be reported based on the existing blending and discrete presentation display requirements of Statement No. 14. This statement is required to be implemented for periods beginning after June 15, 2003.

There was no change to the reporting entity of the District as result of the implementation of Statement No. 39.

In March 2003, the Governmental Accounting Standards Board (GASB) issued Statement No. 40, *Deposit and Investment Risk Disclosures* to amend GASB 3 so as to update the custodial credit risk disclosure requirements of Statement 3 and to establish more comprehensive disclosure requirements addressing other common risks of the deposits and investments of state and local governments. GASB Statement No. 40 eliminates Category 1 and 2 custodial credit risk and disclosures are now limited to:

- Deposits that are not covered by depository insurance and are (a) uncollateralized, (b) collateralized with securities held by the pledging financial institution, or (c) collateralized with securities held by the pledging financial institution's trust department or agent but not in the depositor-government's name.
- Investment securities that are uninsured, are not registered in the name of the government, and are held by either (a) the counterparty or (b) the counterparty's trust department or agent but not in the government's name.

The District adopted GASB Statement No. 40 in fiscal year 2003 and it is thus required to disclose information where applicable covering four principal areas:

- Investment credit risk disclosures, including credit quality information issued by rating agencies;
- Interest rate disclosures that include investment maturity information, such as weighted average maturities or specification identification of the securities.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- Interest rate sensitivity for investments that are highly sensitive to changes in interest rates (examples: enhanced variable-rate investments and certain asset-backed securities); and
- Foreign exchange exposures that would indicate the foreign investment's denomination.

Statement No. 41 clarifies existing guidance on budgetary comparisons in GASB Statement No. 34, *Basic Financial Statements –and Management's Discussion and Analysis for State and Local Governments*. The amendment to Statement 34 clarifies the budgetary presentation requirements for governments with significant budgetary perspective differences that result in their not being able to present budgetary comparison information for their general fund and major special revenue funds. These governments are required to present budgetary comparison schedules as required supplementary information (RSI) based on the fund, organization, or program structure that the government uses for its legally adopted budget. Significant perspective differences implies that there are budgetary structures that prevent governments from comparing the estimated revenues and appropriations from their legally adopted budgets with the major revenue sources and functional expenditures that are reported in the general fund and major special revenue funds.

For governments that have implemented Statement 34 prior to the issuance of this Statement, the requirements of this Statement are effective for financial statements for periods beginning after June 15, 2002. The District does not have significant perspective differences because its budgetary structure does not preclude comparability with major revenue sources and functional expenditures that are reported in the general fund and major special revenue funds.

Technical Bulletin No. 2003-1 prescribes certain disclosures for derivative transactions that are not reported at fair value on the statement of net assets. The Technical Bulletin provides disclosure requirements for the City's objective for entering into a derivative and the derivative's terms, fair value, and risk exposures. Risk exposures, where applicable, would require disclosures for credit risk, interest rate risk, basis risk, termination risk, rollover risk, and matter-access risk. These disclosure requirements are designed to enhance the understanding of financial statement users of the significance of derivatives to the District's net assets and will assist them in assessing the amounts, timing, and uncertainty of future cash flows.

J. RESTRICTED ASSETS

Certain governmental and proprietary funds, component unit, and all fiduciary fund assets are restricted as to use by legal or contractual requirements. Any excess of restricted assets over liabilities payable from restricted assets is reported as part of the restricted net assets in the government-wide, proprietary, and fiduciary financial statements and as reserved fund balance in the governmental fund financial statements to indicate the portion of the net assets or fund balance that is available for restricted purposes only. Restricted assets also represents cash deposited in bank accounts legally restricted for certain purposes such as the payment of bond principal and interest or the payment of fiscal fees on long-term debt.

K. PREPAID ITEMS AND DEFERRED CHARGES

Prepaid items are for payments made by the District in the current year for services to be received in the subsequent fiscal year. Such advance payments are recorded as prepaid charges at the time of prepayment and recognized as expenditures/expenses when the related services are received.

In governmental funds, bond discounts (premiums) and issuance costs are recognized in the current period as interest and fiscal charges, respectively. In the government-wide financial statements, bond discounts (premiums) and issuance costs are capitalized as deferred charges and amortized as fiscal charges over the term of the related bonds.

L. RECEIVABLES AND PAYABLES

Taxes receivable are taxes levied by the District, including interest and penalties on delinquent taxes, which have not been collected, canceled or abated, less the portion of the receivables estimated not to be collectible. Accounts receivable are amounts owed by customers for goods or services sold. Intergovernmental receivables are amounts owed by other governments to the District.

Accounts payable are amounts owed to vendors for goods or services purchased and received. Intergovernmental payables are amounts owed to other governments.

NOTE I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

M. TRANSFERS AND OTHER TRANSACTIONS BETWEEN FUNDS

Interfund transactions are categorized as (a) revenues and expense/expenditure transactions consisting of temporary interfund transactions which include reimbursements and quasi-external transactions or (b) reallocation of resources transactions including temporary interfund loans, advances or operating transfers. Reimbursements between funds occur when expenditures/expenses made from one fund are properly applicable to another fund.

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the non-current portion of interfund loans) or "advances to/from other funds" (i.e., the current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any remaining balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances." Short-term amounts owed between the primary government and a discretely presented component unit are classified as "Due to/from primary government" and "Due to/from component unit" on the statement of net assets.

Transfers are included in the results of operations of both the governmental and proprietary funds. Accordingly, transfers are reported in the "Other Financing Sources (Uses)" section of the statement of revenues, expenditures, and changes in fund balance (governmental funds) and in the "Transfers" section in the statement of revenues, expenses, and changes in net assets (proprietary funds).

N. CAPITAL ASSETS

Capital assets, which include property, plant, equipment, and land improvements (infrastructure) such as roads, bridges, streets and sidewalks, drainage systems, lighting systems, and similar items, are reported in the applicable governmental or business-type activities or component units columns in the government-wide financial statements and proprietary fund financial statements. All purchased capital assets are stated at cost when historical records are available and at estimated historical cost when no historical records exist. Assets acquired through capital leases are stated at the lesser of the present value of the lease payments or the fair value of the asset at the date of lease inception. Donated capital assets are stated at their estimated fair market value on the date received. The cost of maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not

capitalized. Betterments are capitalized over the remaining useful lives of the related capital assets. Capital assets utilized in the governmental funds are recorded as expenditures in the governmental fund financial statements. Depreciation expense is recorded in the government-wide financial statements, as well as the proprietary funds and component units financial statements.

Repairs and maintenance are recorded as expenses; renewals and betterments are capitalized. Interest is capitalized in the government-wide financial statements for business-type activities and proprietary funds on assets constructed with long-term debt. The amount of interest to be capitalized is calculated by offsetting interest expense incurred on tax-exempt debt from the date of borrowing until completion of the project with interest earned on invested proceeds over the same period.

Capitalization and Depreciation Policies

Assets capitalized have an original cost of \$5 or more per unit. Depreciation has been calculated on each class of depreciable property using the straight-line method. Estimated useful lives for capital assets are shown in **Table 1** by category.

Table 1 – Estimated Useful Lives (by Asset Category)

Useful Life
Sewer Lines
30-45 years
Buildings
50 years
Furniture, Fixtures & Equipment
5-10 years
Vehicles
5-10 years
Land Improvements
30-45 years

O. CAPITAL LEASES

Leased property having elements of ownership is recorded in the government-wide and proprietary fund financial statements. The related obligations, in amounts equal to the present value of minimum lease payments payable during the remaining term of the leases, are also recorded in these financial statements.

P. COMPENSATED ABSENCES

Benefit Accumulation Policies

The District's policy allows employees to accumulate unused sick leave, with no maximum limitation. Vacation

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(annual) leave may be accumulated up to 240 hours, depending on the employee's length of service.

Accrual

The District records vacation as an expenditure and related liability in the governmental fund financial statements only to the extent that they mature or come due for payment. Accumulated annual leave that has not matured by the end of the current fiscal year is reported in the government-wide financial statements. Accumulated annual leave of the proprietary funds and discretely presented component units is recorded as an expense and liability as the benefits accrue to employees.

The District does not record a liability for non-vesting accumulating rights to receive sick pay benefits. At the time of retirement, unused sick leave is credited at the rate of 22 days for each month of service and is added to the retirees' years of service in the Civil Service Retirement System and in the District Retirement Program.

An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments at time of retirement rather than be taken as absences due to illness or other contingencies. The District estimates the sick leave liability based on the sick leave accumulated at fiscal year end by employees who are currently eligible for retirement and to receive sick leave payments upon separation, or who are expected to become eligible in the future to receive such payments. Accumulated compensatory leave in lieu of paid overtime is reported in the government-wide financial statements and in the proprietary funds.

Q. LONG-TERM LIABILITIES

Under the District of Columbia Home Rule Act, as amended, no long-term general obligation debt (other than refunding debt) may be issued during any fiscal year in an amount which would cause the amount of the principal and interest paid in any fiscal year on all general obligation debt to exceed 17% of the total local revenues of the then-current fiscal year in which the debt is issued. The legal debt limitation is calculated annually by dividing maximum annual principal and interest by current-year total local-source revenues (excluding revenue and debt of the Water and Sewer Authority, pursuant to the Home Rule Act.)

General obligation bonds, revenue bonds and other long-term liabilities directly related to and intended to be paid from proprietary funds or discretely presented component units are included in the accounts of such funds. All other long-term indebtedness of the District, such as disability compensation, compensated absences, employee

separation incentives and accreted interest liabilities, which have been incurred but not financed, are reported in the government-wide financial statements. Such obligations are to be paid through the District's general fund.

Capital appreciation bonds are issued with a stated interest rate of zero percent. The associated interest is not paid until the bonds mature. Accreted interest is calculated throughout the maturity periods of the bonds and is recorded in the government-wide financial statements. The accreted value of such bonds is the current value, taking into account the interest that has been accumulating and automatically reinvested in the bonds.

R. RESTRICTED NET ASSETS AND FUND BALANCE RESERVATIONS AND DESIGNATIONS

The government-wide and proprietary fund financial statements utilize a net assets presentation. Net assets are categorized as:

- *Invested in Capital Assets, Net of Related Debt* - This category groups all capital assets, including infrastructure, into one component of net assets. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce the balance in this category.
- *Restricted Net Assets* - This category presents net assets subject to external restrictions imposed by creditors, grantors, contributors, or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation. Non-expendable restricted net assets represent the portion of net assets that must be held in perpetuity in accordance with donor stipulations.
- *Unrestricted Net Assets* - This category represents net assets of the District not restricted for any project or other purpose.

It is the policy of the District to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

In the governmental fund financial statements, reserves and designations segregate portions of fund balance that are either not available or have been earmarked for specific purposes. The amount of fund balance that is

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

available for future operations is presented as "unreserved." Reservations of fund balance represent amounts that are legally or statutorily identified for specific purposes or portions that are not appropriate for expenditure. Designations of fund balance represent management's intent to fund future projects, but do not represent a legal or statutory requirement to do so.

As of September 30, 2003, the District had established the following reservations (see **Table 26**):

Reserve for Debt Service-Bond Escrow – This portion of fund balance represents that portion of investments held in escrow that are available for future debt service obligations or requirements.

Reserve for Emergency and Contingency Cash Reserve Fund – This portion of fund balance represents amounts that, in accordance with legislative mandate, are held in an emergency reserve fund, to be used for unanticipated and non-recurring, extraordinary needs of an emergency nature.

Reserve for Budget – This portion of fund balance represents unused FY 2003 Budget Reserve amounts that are available until expended.

Reserve for Long-Term Assets – This portion of fund balance represents those long-term assets that are not available for appropriation and expenditure.

Reserve for Inventory – This portion of fund balance represents that portion of inventories that is not available for appropriation and expenditure.

Reserve for Purpose Restrictions – This portion of fund balance represents resources from grants with limitations on how the District that may expend the funds.

Reserve for Charter School Loan Fund – This portion of fund balance is restricted for the purpose of providing start up costs for new charter schools.

Reserve for Tobacco Settlement (TSFC) – This portion of the District's fund balance represents the fund balance reserved for the purpose of paying future debt service and related expenses associated with TSFC's issuance of Tobacco Settlement Asset-Backed Bonds in FY 2001.

Reserve for Future Benefits – This portion of fund balance represents the portion of resources that is available for benefit payments from the Pension and Private Purpose Trust Funds.

Reserve for Highway Projects – This portion of fund balance is restricted for the purpose of executing federal highway projects.

Reserve for Workers' Compensation – This portion of fund balance is restricted for the purpose of paying restitution for Workers' Compensation Claims.

Reserve for Joint Venture Subsidies – This portion of fund balance is restricted for the purpose of providing subsidies for the Washington Metropolitan Area Transit Authority (WMATA).

Reserve for Tax Increment Financing Program – This portion of fund balance is restricted to pay for Tax Increment Note.

S. POST-EMPLOYMENT BENEFITS

In addition to the pension benefits described in Note 8, employees may receive post-retirement health care and life insurance benefits. In fiscal year 2003, there were 6,724 pre-87 (Civil Service) and 10,836 post-87 (DC Defined Contribution) employees, which totaled 17,560 employees who are eligible for such benefits. The cost of providing such benefits to employees hired prior to October 1, 1987 is borne by the federal government and the District has no liability for this cost. Employees hired after September 30, 1987, pursuant to the D.C. Code 1-622, who subsequently retire may be eligible to continue their health care benefits. Furthermore, in accordance with D.C. Code 1-623, these employees may convert their group life insurance to individual life insurance. The District therefore bears responsibility for the cost relating to employees hired after September 30, 1987. The District does not record a liability for its portion of the cost of post-retirement benefits but rather records such cost as expenses/expenditures when premiums are paid. The District has recognized \$439 for post-retirement health and life insurance premiums paid during fiscal year 2003, and as of September 30, 2003, there were 223 annuitants that received these benefits.

T. USE OF ESTIMATES

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the basic financial statements and the reported amounts of revenues, expenses and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

U. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

Explanation of certain differences between the governmental funds balance sheet and governmental activities on the government-wide statement of net assets

The governmental funds balance sheet includes reconciliation between fund balances - total governmental funds and net assets – governmental activities as reported in the government-wide statement of net assets. One element of that reconciliation explains that certain liabilities are not reported under modified accrual accounting basis including deferred revenue, but are reported in the government-wide financial statements. Deferred revenue of \$ 38,512 is a reconciling item.

Explanation of certain differences between the governmental funds statement of revenues, expenditures, and changes in fund balances and governmental activities on the government-wide statement of activities

The governmental funds statement of revenues, expenditures, and changes in fund balances includes reconciliation between net changes in fund balances – total governmental funds and changes in net assets of governmental activities as reported in the government-wide statement of activities.

The details of the \$416,932 difference are as follows:

Capital outlay capitalized	\$ 630,395
Less: Depreciation expense	(200,651)
Equipment additions	49,528
Net transfer	(728)
Net capital lease activity	11,136
Equipment financing program	(1,293)
COP	(71,455)
Net adjustment	<u>\$ 416,932</u>

Revenues in the statement of activities that do not provide current financial resources and that are not reported as revenues in the funds include:

Revenue from property taxes	\$2,223
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The details of the \$571,539 difference are as follows:

Bond proceeds	\$ 865,205
Less:	
Refunding bond	(143,875)
Principal payments	<u>(149,791)</u>
Net adjustment	<u>\$ 571,539</u>

The details of the \$77,089 difference are as follows:

Increase (decrease) in expenses due to accrued liabilities:

Annual leave	\$ 6,563
Future benefits disability	28,888
CAB interest accretion	2,745
Grant disallowances	10,397
Accrued interest	1,436
Claims and judgments	27,060
Net adjustment	<u>\$ 77,089</u>

NOTE 2. CASH AND INVESTMENTS

A. CASH

The District of Columbia follows the practice of pooling cash and cash equivalents for some of its governmental funds and component units in order to provide better physical custody and control of cash, to enhance operating efficiency and to maximize investment opportunities. Of \$2,328,246 within the custody of the District, in accordance with District policies, substantially all deposits as of September 30, 2003 were insured or collateralized with securities held by the District or by its agent in the District's name. At September 30, 2003, the carrying amount of cash for the primary government was \$2,096,194 and the bank balance was \$1,868,810. The carrying amount of cash (deposits) for the component units was \$232,052 and the bank balance was \$234,735.

B. INVESTMENTS

District of Columbia laws authorize the Treasurer to invest funds in a manner that will provide preservation of principal and meet anticipated daily cash requirements of the District, while maximizing investment earnings. The District purchases legally authorized investments consistent with the provisions of the "Financial Institutions Deposit and Investment Act of 1997" (D.C. Law 12-56), which became effective March 18, 1998. The District's current investment policy limits investments to obligations of the United States and agencies thereof, prime commercial paper, bankers' acceptances and repurchase agreements fully collateralized in obligations of the United States government and agency securities. During the fiscal year, the District's investments consisted primarily of money market funds and/or obligations backed by United States government securities and agencies.

In fiscal year 2003, the District elected to implement GASBS 40, which requires that state and local governments disclose investment risk exposures. Consequently, the District and its discretely presented component units' investment are subject to interest rate, credit, custodial and foreign currency risk as described below:

- *Interest Rate Risk* – This approach limits exposure to fair value losses arising from rising interest rates. During the fiscal year, the District's investments were limited to U.S. government and agency securities and money market funds of less than 90 days.
- *Credit Risk* - The District invests in obligations of the United States government and agencies securities,

prime commercial paper rated A-1 by Standard and Poor's Corporation or P-1 by Moody's, banker's acceptances, and repurchase agreements. During the fiscal year, the District's investments were limited to U.S. government and agency securities and money market funds of less than 90 days.

- *Custodial Risk* - Custodial risk occurs in the event that investment securities are uninsured and/or not registered in the name of the government, and there is failure of the counterparty. In such a case, the government will not be able to recover the value of its investments or collateral securities held in the possession of an outside party. The District had no custodial risk exposure during the fiscal year. The District collateralized all required investments during fiscal year 2003. All collateral for investments is held in the District's name by the Federal Reserve in a custodial account. Any funds not invested at the end of the day are placed in overnight investment in the District's name.
- *Foreign Currency Risk* - As a general policy of the Retirement Board, the Board managers with authority to invest in a portfolio consisting primarily of non-U.S. securities, may structure optional currency positions which minimize tracking error and enhance risk-adjusted returns relative to the benchmark.

Derivative Financial Instruments

In accordance with the policies of the Retirement Board and pursuant to D. C. Code Section 1-741(a)(2)(C), during 2003, the Pension Trust Funds held certain derivative investments to increase potential earnings or to hedge against potential losses. Derivative investments are defined as financial instruments, the values of which depend on or are derived from the value of an underlying asset, reference rate, or index. Derivative investments often contain exposure to market risk resulting from fluctuations in interest and currency exchange rates or changes in the price or principal value of a security. The investment credit risk results from the creditworthiness of the counterparties to the contracts and, for asset backed securities and collateralized mortgage obligations, the creditworthiness of the related consumers and mortgages. The Retirement Board maintains that all contracts are legally permissible in accordance with its policy.

For 2003, derivative investments included foreign currency forward contracts, mortgage-backed security pools, collateralized mortgage obligations, asset backed securities and floating rate notes, interest only treasury securities, bond options and futures, and equity index futures.

NOTE 2. CASH AND INVESTMENTS**Table 2a – Investments by Type**

	<u>Total</u>	<u>Carrying Value</u>
INVESTMENTS		
Primary Government:		
U. S. government securities	\$ 66,343	
Corporate securities	5,000	
Pension trust funds investments:		
Equities	1,124,494	
Fixed income securities (of which \$25,210 is on securities loan with securities and other collateral)	556,134	<u>1,751,971</u>
Mutual funds	48,335	
Pension trust funds investments:		
Equity securities	103,319	
Fixed income securities	59,564	
Securities lending collective investment pool	169,033	
Private purpose trust funds investments	13,798	<u>394,049</u>
Total primary government	<u>2,146,020</u>	
Component Units:		
U. S. government securities	662,748	
Repurchase agreements	1,307	
Corporate securities	15,031	
Investment contracts	76,727	
Mutual funds	33,299	
Total component units	<u>789,112</u>	
Total reporting entity	<u>2,935,132</u>	
DEPOSITS		
Primary government	2,096,194	
Component units	<u>232,052</u>	
Total Deposits	<u>\$ 2,328,246</u>	

NOTE 2. CASH AND INVESTMENTS

Table 2b – Reconciliation of the District's deposit and investment balances

Total investments per Table 2a	\$ 2,935,132
Total deposits	2,328,246
Total	\$ 5,263,378

	Exhibit 1-a	Exhibit 4-a	Total
Cash and cash equivalents	\$ 883,539	\$ -	\$ 883,539
Investments	76,579	-	76,579
Cash and cash equivalents (restricted)	950,917	493,790	1,444,707
Investments (restricted)	832,211	2,026,342	2,858,553
Total	\$ 2,743,246	\$ 2,520,132	\$ 5,263,378

The Pension Trust Funds used asset backed securities (ABS), collateralized mortgage obligations (CMOs,) mortgage-backed pools and securities, structured notes, stripped/zero coupon bonds, inflation index bonds, and mortgage backed security forward contracts primarily to increase potential returns. ABS and mortgage-backed pools and securities offer higher potential yields than comparable duration U. S. Treasury Notes with higher credit and market risks. CMOs also offer higher potential yields than comparable duration U. S. Treasury Notes, with higher market risks, although the market risks may be higher or lower than comparable mortgage-backed pools. Market risk for asset backed and mortgage backed pools and securities are managed by monitoring the duration of the investments. Credit risk is managed by monitoring credit ratings, the underlying collateral for each security and any related guarantee.

The Pension Trust Funds invest in structured notes with step-up coupons that offer higher yields than comparable U. S. Treasury Notes in exchange for higher market and/or credit risks. Securities with step-up coupons pay

interest according to a pre-set series of interest rates, which start at one rate and then step-up to higher rates on specific dates. The Funds also contain stripped/zero coupon bonds, which are purchased at a discount and do not pay an interest rate.

The Pension Trust Funds also hold derivative investments indirectly by participating in pooled, commingled, mutual or short-term funds that hold derivatives. Information regarding any risks associated with these holdings is not generally available.

At September 30, 2003, the Pension Trust Funds' portfolio included \$287,002 of derivative investments, or 12% of the pension investment portfolio. The proportion of derivative investments varied at times throughout the year. Further information regarding balances throughout the year is not available.

Derivative investments by type at September 30, 2003 are shown in **Table 3**.

Table 3 – Derivative Investments by Type

Investment Instrument Type	
Asset-backed securities	\$ 6,977
Collateralized mortgage obligations	20,014
Mortgage -backed security pools and securities	48,470
Structured notes (including stripped securities)	7,398
Inflation index bonds	30,105
Mortgage -backed security forward contracts	176,934
Options	(2,896)
Total Derivatives	\$ 287,002

NOTE 2. CASH AND INVESTMENTS**C. SECURITIES LENDING**

During FY 2003, the master custodian, at the direction of the Retirement Board, lent the Pension Trust Funds' equity securities and received collateral in the form of cash (United States and foreign currency), securities issued or guaranteed by the United States government, the sovereign debt of Organization of Economic Cooperation and Development countries and irrevocable letters of credit by a bank insured by the FDIC. The collateral could not be pledged or sold unless the borrower defaulted on the loan. Borrowers delivered collateral for each loan equal to (i) at least 102% of the market value of the loaned securities if these securities were sovereign debt issued by a foreign government denominated in U. S. dollars or their primary trading market was located in the United States; or (ii) 105% of the market value of the loaned securities in the case of loaned securities not denominated in United States dollars or whose primary trading market was not located in the United States.

The Retirement Board and the borrowers maintained the right to terminate all securities lending transactions on demand.

The cash collateral received on each loan was invested, together with the cash collateral of other qualified tax-exempt plan lenders, in a collective investment pool. At September 30, 2003, the investment pool had an average duration of 79 days and an average weighted maturity of 226 days. Because the loans were terminable at will, their duration did not generally match the duration of the investments made with cash collateral.

During FY 2003, the Retirement Board did not restrict the amount of loans that the master custodian made on its behalf. No failure to return loaned securities or to pay distributions occurred during the year, and no losses were incurred from a default of a borrower or the master custodian. The Funds had no credit risk exposure to borrowers as of year-end. As of September 30, 2003, the collateral held and the market value of securities on loan were \$195,748 and \$189,225 respectively. The collateral held is included in cash and investments shown in Exhibit 4-a and the liabilities associated with the securities lending transactions are reported in Exhibit 4-a, at their carrying amounts, which are less than their market values.

At the close of 2003, gross earnings from securities lending transactions totaled \$2,201. The income (net of amortization and accretion), the net realized/unrealized gain attributable to discount and premium, and the net increase in net assets resulting from operations totaled \$1,407, \$247 and \$1,655, respectively. The Pension Trust Funds' share of the net earnings on securities lending transactions totaled \$283 in 2003.

NOTE 3. RESTRICTED ASSETS

At September 30, 2003, restricted assets of the primary government and its component units totaled \$4,303,260 as summarized in **Table 4**.

Table 4 – Summary of Restricted Assets

Governmental Funds/Governmental Activities						
	General	Federal Private Resources	General Capital Improvements	Non-Major	Total	
Bond Escrow Accounts	\$ 213,217		\$ -	\$ -	\$ 213,217	
Public Transportation	-		43,744	-	43,744	
Emergency Cash/Debt						
Service Reserves	253,800	1,470	-	79,095	334,365	
Total	\$ 467,017	1,470	\$ 43,744	\$ 79,095	\$ 591,326	

Proprietary Funds/Business-type Activities						
	Lottery & Games	Unemployment Compensation	Total	Fiduciary Funds	Component Units	
Bond Escrow Accounts	\$ -	\$ -	\$ -	\$ -	\$ 788,593	
Unpaid Prizes	64,906	-	64,906	-	-	
University Endowment	-	-	-	-	12,308	
Benefits	-	297,563	297,563	2,520,132	-	
University	-	-	-	-	28,432	
Total	\$ 64,906	\$ 297,563	\$ 362,469	\$ 2,520,132	\$ 829,333	

NOTE 4. COMPONENT UNIT AND INTERFUND BALANCES AND OTHER RECEIVABLES**A. RECEIVABLES AND PAYABLES BETWEEN FUNDS AND COMPONENT UNITS**

Due to/due from and interfund receivable and payable balances for each individual fund and component unit at September 30, 2003 are shown in **Table 5**.

Table 5 – Summary of Due To/Due From and Interfund Balances

Fund or Component Unit	Primary Government/ Component Units		Interfund	
	Receivables	Payables	Receivables	Payables
General	\$ 957	\$ 24,961	\$ 255,863	\$ 721
Federal & Private Resources	-	-	25,086	164,516
General Capital Improvements	-	-	8,206	90,441
Non-major governmental	-	-	-	8,207
Unemployment Compensation	-	-	721	25,250
Pension Trust	-	-	46	741
Agency	-	-	-	46
Water and Sewer Authority	17,740	154	-	-
Washington Convention Center	5,505	-	-	-
Sports and Entertainment Commission	-	803	-	-
University of the District of Columbia	1,716	-	-	-
Total	\$ 25,918	\$ 25,918	\$ 289,922	\$ 289,922

The above balances represent the impact of transactions between the funds, which will be settled during fiscal year 2004.

B. INTERFUND TRANSFERS

Table 6 shows a summary of interfund transfers for the fiscal year ended September 30, 2003.

Table 6 – Summary of Interfund Transfers

TRANSFER FROM (OUT)	TRANSFER TO (IN)	PURPOSE	AMOUNT
General Fund	Nonmajor Highway Trust Funds	Motor fuel taxes dedicated to the Highway Trust Fund	\$ 26,808
Nonmajor Highway Trust Fund	General Capital Improvements	Equity transfer of the right away separation from the Highway Trust Fund	26,510
General Fund	Nonmajor Enterprise Fund	Transfer of Nursing facilities to the Enterprise fund	34,476
General Fund	Special Revenue Fund	To cover non-reimbursable program expenditures	99,075
Lottery and Games	General Fund	DC Lottery and Games excess revenues, after operating cost, to the General Fund	72,050
TOTAL INTERFUND TRANSFERS			\$ 258,919

NOTE 4. COMPONENT UNIT AND INTERFUND BALANCES AND OTHER RECEIVABLES**C. OTHER RECEIVABLES**

Taxes and other receivables are valued at their estimated collectible amount. These receivables are presented in various funds as shown in **Table 7**.

Table 7 - Other Receivables

	General	Federal & Private Resources	General Capital Improvement s	Nonmajor Government al Funds	Lottery and Games	Unemploy ment Compensation	Nonmajor Proprietary Fund	Pension Trust Funds	Private Purpose Trust Fund
Gross Receivable:									
Taxes	\$ 330,864	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Accounts	220,974	539,936	63,955	3,113	3,677	19,117	8,278	2,860	21
Total gross receivable	551,838	539,936	63,955	3,113	3,677	19,117	8,278	2,860	21
Less-allowance for uncollectibles									
	238,793	133,646	-	-	456	-	654	-	-
Total net receivable	\$ 313,045	\$ 406,290	\$ 63,955	\$ 3,113	\$ 3,221	\$ 19,117	\$ 7,624	\$ 2,860	\$ 21

NOTE 5. CAPITAL ASSETS**Capital Outlays**

Capital outlays totaled \$762,145 for the fiscal year ended September 30, 2003, which are reported in the General Capital Improvements and Other Nonmajor Governmental Funds. As construction progresses, the cumulative expenditures are capitalized as construction in progress in the Governmental Activities column of the Government-Wide Financial Statements. Upon completion of the asset, the balance in the Construction in Progress account is transferred to an appropriate descriptive capital asset account such as building or equipment.

NOTE 5. CAPITAL ASSETS**A. GOVERNMENTAL ACTIVITIES CAPITAL ASSETS BY CLASS**

Table 8 presents the changes in the governmental activities capital assets by category for the primary government:

Table 8 - Changes in the Governmental Activities Capital Assets by Asset Class

Asset Class	Balance October 1, 2002	Additions	Transfers/ Dispositions	Transfers from CIP	Balance September 30, 2003
Non Depreciable:					
Land	\$ 219,076	\$ -	\$ -	\$ -	\$ 219,076
Construction in Progress (CIP)	1,006,432	630,395	-	(498,026)	1,138,801
Total non-depreciable	<u>1,225,508</u>	<u>630,395</u>	<u>-</u>	<u>(498,026)</u>	<u>1,357,877</u>
Depreciable:					
Infrastructure	2,371,888	-	-	245,448	2,617,336
Buildings	2,109,642	-	-	219,295	2,328,937
Equipment	420,053	49,528	(4,844)	33,283	498,020
Total depreciable	<u>4,901,583</u>	<u>49,528</u>	<u>(4,844)</u>	<u>498,026</u>	<u>5,444,293</u>
Less: Accumulated Depreciation for					
Infrastructure	1,199,505	57,609	-	-	1,257,114
Building	809,449	87,128	-	-	896,577
Equipment	217,320	55,914	(4,116)	-	269,118
Total Accumulated Depreciation	<u>2,226,274</u>	<u>200,651</u>	<u>(4,116)</u>	<u>-</u>	<u>2,422,809</u>
Total depreciable, Net	<u>2,675,309</u>	<u>(151,123)</u>	<u>(728)</u>	<u>498,026</u>	<u>3,021,484</u>
Net governmental activities capital assets	<u>\$ 3,900,817</u>	<u>\$ 479,272</u>	<u>\$ (728)</u>	<u>\$ -</u>	<u>\$ 4,379,361</u>
Local Source	3,320,951	312,830	(728)	-	3,633,053
Intergovernmental	579,866	166,442	-	-	746,308
Total resources invested, net	<u>\$ 3,900,817</u>	<u>\$ 479,272</u>	<u>\$ (728)</u>	<u>\$ -</u>	<u>\$ 4,379,361</u>

NOTE 5. CAPITAL ASSETS

B. GOVERNMENTAL ACTIVITIES CAPITAL ASSETS BY FUNCTION

Table 9 presents the changes in the governmental activities capital assets by function for the primary government:

Table 9- Governmental Activities Capital Assets by Function

Function	Balance October 1, 2002	Transfers/ Additions	Transfers/ Dispositions	CIP Transfers in (out)	Balance September 30, 2003
Governmental direction and support	\$ 237,234	\$ 2,307	\$ (2,828)	\$ 63,693	\$ 300,406
Economic development and regulation	87,810	1,704	-	-	89,514
Public safety and justice	528,281	19,574	(1,960)	33,057	578,952
Public education system	820,230	14,674	(45)	114,845	949,704
Human support services	573,266	3,351	(11)	32,126	608,732
Public works	2,873,838	7,918	-	254,305	3,136,061
Construction in progress (CIP)	1,006,432	630,395	-	(498,026)	1,138,801
Total	\$ 6,127,091	\$ 679,923	\$ (4,844)	\$ -	\$ 6,802,170

C. GOVERNMENTAL ACTIVITIES CAPITAL ASSETS ACCUMULATED DEPRECIATION BY FUNCTION

A summary of changes in governmental activities capital assets depreciation by function for the primary government is shown in Table 10.

Table 10 – Governmental Activities Capital Assets Accumulated Depreciation By Function

Function	Balance October 1, 2002	Additions	Transfers/ Dispositions	Balance September 30, 2003
Government direction and support	\$ 60,989	\$ 39,446	\$ (2,275)	\$ 98,160
Economic development and regulation	18,884	2,559	-	21,443
Public safety and justice	200,049	23,952	(1,795)	222,206
Public education system	401,445	18,961	(45)	420,361
Human support services	248,732	10,905	(1)	259,636
Public works	1,296,175	104,827	-	1,401,002
Total	\$ 2,226,274	\$ 200,650	\$ (4,116)	\$ 2,422,808

NOTE 5. CAPITAL ASSETS

D. BUSINESS-TYPE ACTIVITIES CAPITAL ASSETS

Business-Type Activities Capital Assets are presented in **Table 11**.

Table 11 –Business-Type Activities Capital Assets

Asset Class	Balance October 1, 2002	Additions	Transfers/ Dispositions	Balance September 30, 2003
Lottery:				
Equipment	\$ 3,725	\$ 231	\$ -	\$ 3,956
Total	3,725	231	-	3,956
Nonmajor business-type	-	7,604	-	7,604
Total Business-Type	3,725	7,835	-	11,560
Less-accumulated depreciation for:				
Lottery	(2,230)	(372)	-	(2,602)
Nonmajor	-	(4,926)	-	(4,926)
Total accumulated depreciation	(2,230)	(5,298)	-	(7,528)
Net capital assets	\$ 1,495	\$ 2,537	\$ -	\$ 4,032

E. DISCRETELY PRESENTED COMPONENT UNITS CAPITAL ASSETS

A summary of capital assets by class for the discretely presented component units is shown in **Tables 12 and 13**.

Table 12 - Capital Assets by Class for the Discretely Presented Component Units

Asset Class	Balance October 1, 2002	Additions	Transfers/ Dispositions	CIP Transfers in (out)	Balance September 30, 2003
Land	\$ 12,705	\$ 163	\$ -	\$ -	\$ 12,868
Utility plant	1,806,468	16,171	-	25,103	1,847,742
Buildings	153,445	178,615	-	617,929	949,989
Equipment	115,105	8,443	(1,739)	11,642	133,451
Artwork	-	2,652	-	-	2,652
Construction in progress	790,393	232,994	-	(654,674)	368,713
Total	2,878,116	439,038	(1,739)	-	3,315,415
Less-accumulated depreciation for					
Utility plant	(551,727)	(28,341)	-	-	(580,068)
Buildings	(92,201)	(18,533)	-	-	(110,734)
Equipment	(75,429)	(13,730)	1,510	-	(87,649)
Total accumulated depreciation	(719,357)	(60,604)	1,510	-	(778,451)
Net Capital Assets	\$ 2,158,759	\$ 378,434	\$ (229)	\$ -	\$ 2,536,964

NOTE 5. CAPITAL ASSETS**Table 13– Capital Assets by Component Unit**

Component Units	Balance October 1, 2002	Additions	Transfers/ Dispositions	Balance September 30, 2003
University of the District of Columbia	\$ 144,466	\$ 5,536	\$ -	\$ 150,002
Washington Convention Center	633,117	200,271		833,388
Water and Sewer Authority	2,054,575	232,720	(1,739)	2,285,556
Sports and Entertainment Commission	41,204	361	-	41,565
Housing Finance Agency	4,754	150		4,904
Total	2,878,116	439,038	(1,739)	3,315,415
Less-accumulated depreciation for				
University of the District of Columbia	(86,774)	(4,893)	-	(91,667)
Washington Convention Center	(8,283)	(14,007)	-	(22,290)
Water and Sewer Authority	(596,602)	(39,523)	1,510	(634,615)
Sports and Entertainment Commission	(26,038)	(1,926)	-	(27,964)
Housing Finance Agency	(1,660)	(255)	-	(1,915)
Total accumulated depreciation	(719,357)	(60,604)	1,510	(778,451)
Net component unit capital assets	\$ 2,158,759	\$ 378,434	\$ (229)	\$ 2,536,964

NOTE 5. CAPITAL ASSETS

F. CONSTRUCTION IN PROGRESS

Construction in progress by function for governmental activities capital assets is shown in **Table 14**.

Table 14 – Construction in Progress by Function

Function and Subfunction	Number of Projects	Authorizations	Expenditures			Unexpended Balance			
			Prior Years	Current Year	Total				
PRIMARY GOVERNMENT									
Governmental Direction and Support:									
Finance	3	\$ 132,085	\$ 104,780	\$ 8,922	\$ 113,702	\$ 18,383			
Personnel	1	5,980	4,383	1,597	5,980	-			
Legislative	1	1,984	1,600	384	1,984	-			
Administrative	12	300,933	89,003	66,982	155,985	144,948			
Total	17	440,982	199,766	77,885	277,651	163,331			
Public Safety and Justice:									
Police	2	37,094	7,166	3,032	10,198	26,896			
Fire	8	29,394	661	8,652	9,313	20,081			
Correction	-	-	-	-	-	-			
Emergency Preparedness	-	-	-	-	-	-			
Judicial	-	-	-	-	-	-			
Total	10	66,488	7,827	11,684	19,511	46,977			
Economic Development and Regulation									
Community Development	3	45,771	-	5,266	5,266	40,505			
Planning & Economic Development	1	2,159	-	2,159	2,159	-			
Total	4	47,930	-	7,425	7,425	40,505			
Public Education System:									
Public School System	45	1,045,242	213,246	55,336	268,582	776,660			
Human Support Services:									
Health and welfare	28	218,577	46,906	45,758	92,664	125,913			
Human relations	5	9,042	883	218	1,101	7,941			
Recreation	6	99,611	1,162	6,993	8,155	91,456			
Total	39	327,230	48,951	52,969	101,920	225,310			
Public Works:									
Environmental	78	745,638	435,591	28,121	463,712	281,926			
Total	78	745,638	435,591	28,121	463,712	281,926			
Totals	193	\$ 2,673,510	\$ 905,381	\$ 233,420	\$ 1,138,801	\$ 1,534,709			

NOTE 6. CONDUIT DEBT TRANSACTIONS

INDUSTRIAL REVENUE BOND PROGRAM

The District has issued, under its Industrial Revenue Bond Program, private activity bonds for which the principal and interest are payable solely from defined revenues of private entities, such as non-profit organizations. The District has no obligation for this debt beyond resources that may have been provided by related leases or loans.

Organizations participating in the Industrial Revenue Bond Program are allowed to borrow at the prevailing municipal bond rate. These private activity bonds provide economic incentive to construct, modernize or enhance private entity facilities in the District thereby supporting the District's economic base. As of September 30, 2003, the aggregate outstanding principal amount for these conduit debt obligations was approximately \$3.4 billion.

NOTE 7. LONG-TERM LIABILITIES

A. LONG-TERM DEBT

In the government-wide financial statements and proprietary funds, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary funds statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance, costs are reported as deferred charges.

Governmental funds recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

General Obligation Bonds

At September 30, 2002, the District had a serial and term general obligation bonds outstanding balance of \$2,670,573. On October 15, 2002, the District issued \$149,900 in multimodal general obligation bonds (Series 2002A) scheduled to mature on June 1, 2019 and \$224,300 in multimodal general obligation bonds (Series 2002B) scheduled to mature on June 1, 2027. Bond proceeds were used to (i) fund capital projects totaling \$367,930 and (ii) pay \$6,269 for costs and expenses of issuing and delivering the bonds.

On October 31, 2002, the District issued \$38,175 in general obligation refunding bonds (Series 2002C) scheduled to mature on June 1, 2014 and \$124,995 in multimodal general obligation refunding bonds (Series 2002D) scheduled to mature on June 1, 2031. Bond proceeds were used to (i) defease \$143,875 of the

District's outstanding general obligation bonds and (ii) pay \$2,478 for costs and expenses of issuing and delivering the bonds.

The District completed the advance refunding to reduce its total debt service payment over the next 29 years by approximately \$17,000 and to obtain an economic gain of approximately \$14,600.

On July 31, 2003, the District issued \$327,835 in general obligation bonds (Series 2003A) scheduled to mature on June 1, 2028. Bond proceeds were used to (i) fund capital projects totaling \$338,961 and (ii) pay \$5,133 for costs and expenses of issuing and delivering the bonds.

Prior to the creation of the Water and Sewer Authority as an independent entity, the District issued general obligation bonds to fund improvements to the water and wastewater system. The Water and Sewer Authority is responsible for this debt. While the Water and Sewer Authority is not directly liable for the general obligation bonds, it is required by enabling legislation to transfer to the District the funds necessary to pay its portion of the debt service on these bonds. Accordingly, District general obligation bonds totaling \$65,645 are reflected in the financial statements of the Water and Sewer Authority.

The remainder of the general obligation bonds were authorized and issued primarily to provide funds for certain other capital projects and improvements. All general obligation bonds are backed by the full faith and credit of the District. In addition, the bonds are secured by a security interest in and lien on the funds derived from a Special Real Property Tax levied annually by the District on portions of certain real property. These tax revenues have been dedicated for payment of bond principal and interest. Amounts collected are deposited in banks and held in escrow for payment of bond principal and interest when due. A summary of the outstanding debt totaling \$3,251,118 at September 30, 2003 is shown in Table 16.

NOTE 7. LONG – TERM LIABILITIES**TIF Notes and Bonds**

The Tax Increment Financing (TIF) Notes and Bonds are special limited obligations of the District. In 2001, the District promised to pay an aggregate principal amount of \$6,900 to the House on F Street Development Sponsor. The sole source of repayment of the TIF Notes shall be the incremental revenues from the Project, and the District shall have no obligation to make any payments on the TIF Notes, other than through the remittance to the Paying Agent. If the incremental revenues are insufficient to pay the principal and interest due on the TIF Notes when due, such payment shortfall shall not constitute a default under the TIF agreement. If and when the incremental revenues are sufficient, the District shall pay the amount of any shortfall to the Development Sponsor without any penalty interest or premium thereon.

In 2002, the District promised to pay an aggregate principal amount of \$73,650 to the Gallery Place Development Sponsor and \$45,995 to the Mandarin Hotel Development Sponsor. Two Tax Increment Financing (TIF) Bonds were issued pursuant to the District of Columbia Tax Increment Financing Authorization Act of 1998, as amended, and the Trust Indenture dated as of April 1, 2002. Interest rates on the Gallery Place and Mandarin Hotel TIF Bonds range from 4.0% to 5.5%.

Tobacco Bonds

In November 1998, the District (along with a number of other States and various jurisdictions) signed a Master Settlement Agreement with the major U.S. tobacco companies that ended litigation over health care treatment costs incurred for smoking-related illnesses. Under the settlement, the District is scheduled to receive total annual payments aggregating an estimated \$1.2 billion by 2025. There are a number of potential adjustments to this schedule, including an inflation adjustment and a cigarette volume adjustment. In addition, there are numerous risks regarding whether the District will receive the full amount to which it is entitled under the terms of the Master Settlement Agreement, including various lawsuits outside the District alleging that the Master Settlement Agreement is void or voidable.

In 2001, the Tobacco Corporation issued \$521,105 aggregate principal amount of its Tobacco Settlement Asset-Backed Bonds, Series 2001, of which \$506,550 was outstanding as of September 30, 2003. The payment of those bonds was secured by the distribution under the Master Settlement Agreement. Payments received by the Tobacco Corporation under the Master Settlement Agreement in excess of the annual debt service requirements for the Tobacco Bonds revert to the General

Fund. A total of \$5,069 was returned to the General Fund during fiscal year 2003. The Tobacco Bonds are neither general nor moral obligations of the District and are not secured by a pledge of the full faith and credit of the District.

Qualified Zone Academy Bond

The District issued the Qualified Zone Academy Bond (QZAB) as a taxable general obligation bond without incurring interest expense. The District received \$4,665 and is obligated to deposit a total amount of \$3,582 into a sinking fund in fourteen equal amounts of \$255 beginning December 1, 2002.

Certificate of Participation (COP)

The Certificates were issued under an Indenture of Trust between Wells Fargo Delaware Trust Company (the "Lessor") and Wells Fargo Bank Minnesota, N.A. (the "Trustee" to provide funds to finance a portion of the design and construction of a public safety and emergency preparedness communications and command center and a portion of the design, construction and installation of a high-speed telecommunications network. The District agreed in the Lease Agreement to make lease payments (the "Lease Payments"), which are expected to be sufficient to pay the principal of and interest on the Certificates.

Tax Revenue Anticipation Notes

The District issued \$150,000 in Tax Revenue Anticipation Notes (TRANs) on October 30, 2002. This is a short term financing method used to provide for seasonal cash flow needs. Operational and other disbursement costs are covered by the TRAN proceeds until periodic tax, grants and other revenues are received. The FY 2003 TRAN, as prescribed by law, was repaid, in the current year, on September 30, 2003.

NOTE 7. LONG-TERM LIABILITIES

Table 16 - Changes in Governmental Activities Long-Term Debt of Primary Government

	General Obligation Bonds	TIF Notes	TIF Bonds	Tobacco Bonds	QZAB	Total
Debt payable at October 1, 2002	\$ 2,670,573	6,900	119,645	514,280	3,582	3,314,980
Bond and note proceeds:						-
Series 2002A	149,900	-	-	-	-	149,900
Series 2002B	224,300	-	-	-	-	224,300
Series 2002C	38,175	-	-	-	-	38,175
Series 2002D	124,995	-	-	-	-	124,995
Series 2003A	327,835	-	-	-	-	327,835
Total	\$ 3,535,778	6,900	119,645	514,280	3,582	4,180,185
Debt payments:						
Principal matured	140,785	1,021	-	7,730	255	149,791
Principal defeased	143,875	-	-	-	-	143,875
Debt payable September 30, 2003	\$ 3,251,118	5,879	119,645	506,550	3,327	3,886,519

Summary of debt service requirements for general long-term debt to maturity for these bonds is shown in **Table 17a** and summary of Debt Service Requirements for Qualified Zone Academy Bond and Emergency Preparedness Communications Center and Related Technology to Maturity is shown in **Table 17b**.

Table 17a - Summary of Debt Service Requirements for General Long-Term Debt to Maturity

Due to the uncertainty of the future tax increment receipts, future payments on TIF notes and bonds are not included in the summary of debt service requirements.

Year Ending September 30	General Obligation		Tobacco Bonds		Total
	Principal	Interest	Principal	Interest	
2004	\$ 146,505	161,661	3,810	32,712	344,688
2005	166,020	153,140	4,000	32,473	355,633
2006	174,185	143,991	4,720	32,224	355,120
2007	180,865	134,737	5,215	31,928	352,745
2008	190,615	124,798	12,585	31,602	359,600
2009 - 2013	866,813	511,765	77,025	145,933	1,601,536
2014 - 2018	479,990	312,290	105,145	108,483	1,005,908
2019 - 2023	503,700	185,571	147,805	79,719	916,795
2024 - 2028	498,555	64,009	146,245	22,769	731,578
2029 - 2034	43,870	2,359	-	-	46,229
Total	\$ 3,251,118	1,794,321	506,550	517,843	6,069,832

NOTE 7. LONG – TERM LIABILITIES
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Table 17b - Summary of Debt Service Requirements for Qualified Zone Academy Bond and Emergency Preparedness Communications Center and Related Technology to Maturity

Year Ending September 30	Qualified Zone Academy Bond (QZAB)			Emergency Preparedness Communications Center & Related Technology (COP)		
	Principal	Interest	Total	Principal	Interest	Total
2004	\$ 256	\$ 24	\$ 280	\$ -	\$ 3,358	\$ 3,358
2005	256	35	291	2,480	3,321	5,801
2006	256	47	303	2,555	3,246	5,801
2007	256	59	315	2,635	3,168	5,803
2008	256	70	326	2,735	3,063	5,798
2009-2013	1,280	232	1,512	15,570	13,433	29,003
2014-2018	767	148	915	29,260	4,629	33,889
2019-2023	-	-	-	16,220	2,721	18,941
Total	\$ 3,327	\$ 615	\$ 3,942	\$ 71,455	\$ 36,939	\$ 108,394

Defeased Bonds

In prior years, the District has defeased certain bond issues by issuing refunding bonds. As of September 30,

2003, the total amount of defeased debt outstanding but removed from the government-wide financial statement was \$827,499. The amount defeased during the year ended September 30, 2003 is presented in **Table 18**.

Table 18 – Summary of Defeased Bonds in Fiscal Year 2003

Defeased by Bond 2002D:

Bond Series	Interest Rate (%)	Amount
1992B	6.125-6.250	\$ 6,920
1993E	5.750-6.000	25,600
1997A	5.2-6.0	86,475
1998A	4..5-5.2	13,100
2001B	5-5.25	11,780
TOTAL:		\$ 143,875

NOTE 7. LONG-TERM LIABILITIES

COMPONENT UNITS

Water and Sewer Authority

The Water and Sewer Authority derives its funding for future capital projects from the issuance of revenue bonds, notes payable to the federal government and various other non-debt sources of financing. The public utility revenue bonds and notes payable to the federal government for the Washington Aqueduct are considered senior debt. Notes payable to the federal government for the Washington Aqueduct are specifically secured by user charges assessed on retail customers. During the year ended September 30, 2003, the highest rate on these notes was 6.75% and the lowest rate was 4.55%. Debt outstanding at September 30, 2003 totaling \$525,902 included net unamortized bond premiums, discounts, and issuance costs of (\$511) and a remaining principal balance of \$526,413.

Commercial Paper Note Payable

During the fiscal year 2003, the Authority issued an additional \$10 million in commercial paper, with interest rates ranging from 1.40 to 1.65 percent. All maturities were less than 270-days, as stipulated in the Board resolution authorizing the program. The Authority paid off a total of \$100 million in Commercial paper. At the end of the fiscal year, the Authority had no balance payable in Commercial paper.

A summary of Water and Sewer Authority's debt service requirements to maturity for principal and interest is shown in **Table 19**.

Table 19 – Water and Sewer Authority Debt Service Requirements to Maturity

Year Ending September 30	Principal	Interest	Total
2004	\$ 15,892	27,972	43,864
2005	16,134	27,164	43,298
2006	13,385	26,299	39,684
2007	7,548	25,575	33,123
2008	13,951	24,922	38,873
2009 - 2013	61,354	113,449	174,803
2014 - 2018	68,024	95,629	163,653
2019 - 2023	89,069	73,848	162,917
2024 - 2028	127,927	43,795	171,722
2029 - 2033	108,481	16,433	124,914
2034 - 2038	2,764	581	3,345
2039 - 2042	1,884	124	2,008
Sub-total	\$ 526,413	475,791	1,002,204
Less: Unamortized Bond Discount	(511)	-	(511)
Total	\$ 525,902	475,791	1,001,693

Washington Convention Center Authority

On September 29, 1998, the Washington Convention Center Authority issued \$524 million in senior lien dedicated tax revenue serial and term bonds at various rates and maturities.

The bond proceeds were used to construct and equip the new convention center. The 1998 bonds are special obligations of the Washington Convention Center Authority. The 1998 Bonds are payable solely from dedicated tax receipts and pledged funds established under the Trust Agreement.

The Washington Convention Center Authority (WCCA) Act authorized the pledge of the dedicated taxes to secure the repayment of the 1998 bonds. Pursuant to the WCCA Act, the District has also pledged not to limit or alter any rights vested in the Washington Convention Center Authority to fulfill agreements made with holders of the 1998 Bonds, or in any way impair rights and remedies of bondholders until the 1998 bonds and the interest thereon are paid in full.

A summary of Washington Convention Center Authority's debt service requirements to maturity for principal and interest is shown in **Table 20**.

NOTE 7. LONG – TERM LIABILITIES**Table 20 – Washington Convention Center Authority Debt Service Requirements to Maturity**

Year Ending September 30		Principal	Interest	Total
2004	\$	10,225	25,951	36,176
2005		10,685	25,491	36,176
2006		11,190	24,984	36,174
2007		11,720	24,452	36,172
2008		12,310	23,866	36,176
2009 - 2013		71,770	109,104	180,874
2014 - 2018		92,640	88,229	180,869
2019 - 2023		118,830	62,036	180,866
2024 - 2028		150,555	30,320	180,875
2029 -		34,535	1,640	36,175
Sub-total	\$	524,460	416,073	940,533
Less: Unamortized Discount		(5,831)	-	(5,831)
Total		518,629	416,073	934,702

Housing Finance Agency

Bonds payable consists of term and serial bonds which are subject to redemption at the option of the Housing Finance Agency in accordance with the terms of the respective bond indenture and bond resolution, in whole or in part, on various dates at prescribed redemption prices. Included in certain bond issues are capital appreciation bonds. The principal amount of these bonds appreciates either annually or semi-annually, compounding on the original principal balance. These bonds are recorded in the financial statements at their current appreciated amounts.

Bonds have been issued to provide financing for the Housing Finance Agency's housing programs and are collateralized by: (a) mortgage loans made on the related developments or single-family residential mortgage loans purchased, (b) substantially all revenues, mortgage payments, and recovery payments received by the agency from mortgage loans made on related developments or (c) certain accounts, generally debt service reserve funds, established pursuant to the indenture authorizing issuance of the bonds.

A summary of Housing Finance Agency's debt service requirements to maturity for principal and interest is shown in **Table 21**.

NOTE 7. LONG-TERM LIABILITIES**Table 21 - Housing Finance Agency Debt Service Requirements to Maturity**

Year Ending September 30	Principal	Interest	Total
2004	\$ 11,710	43,705	55,415
2005	8,650	43,010	51,660
2006	2,465	42,888	45,353
2007	2,360	42,770	45,130
2008	5,135	42,575	47,710
2009-2013	30,280	208,319	238,599
2014-2018	11,172	201,701	212,873
2019-2023	76,405	190,031	266,436
2024-2028	156,980	152,708	309,688
2029-2033	142,938	109,936	252,874
2034-2038	119,504	68,630	188,134
2039-2043	110,204	46,299	156,503
2044-2048	54,650	16,493	71,143
2049-2053	-	10,307	10,307
2054-2058	184,055	2,405	186,460
Subtotal	916,508	1,221,777	2,138,285
Unamortized Bond Premium, net	3,865	-	3,865
Total	\$ 920,373	1,221,777	2,142,150

B. OTHER LONG-TERM LIABILITIES

A summary of changes in other long-term liabilities for governmental activities is shown in **Table 22**.

Table 22 - Changes in Other Long-Term Liabilities

Account	Balance October 1, 2002	Additions	Deductions	Balance September 30, 2003
Governmental Activities:				
Accrued disability compensation (Note 13)	\$ 231,883	64,738	(35,850)	260,771
Accumulated annual leave	96,008	6,563	-	102,571
COP public safety center	-	71,455	-	71,455
Grant disallowances	56,940	10,396	-	67,336
Claims & judgments	28,969	40,753	(18,693)	51,029
Equipment financing program	55,463	17,094	(15,801)	56,756
Accreted interest	16,870	2,745	-	19,615
Capital leases payable (Note 12)	101,594	8,741	(19,877)	90,458
Total	\$ 587,727	222,485	(90,221)	719,991

NOTE 7. LONG TERM LIABILITIES

C. CURRENT PORTION OF LONG-TERM LIABILITIES

Table 23 presents the current and long portions of long-term liabilities.

Table 23 – Current & Long Portion of Long-Term Liabilities

Type of Liability	Current Portion	Long-Term Portion	Total
	Principal	Principal	Principal
General Obligation Bonds	\$ 146,505	\$ 3,104,613	\$ 3,251,118
TIF Bonds and Notes	-	125,524	125,524
QZAB	255	3,072	3,327
Capital Leases	3,950	86,508	90,458
Tobacco Bonds	3,810	502,740	506,550
Annual leave	65,529	37,042	102,571
Disability compensation	-	260,771	260,771
Equipment financing program	20,629	36,127	56,756
Accreted interest	-	19,615	19,615
Claims and judgements	-	51,029	51,029
Grant disallowances	-	67,336	67,336
COP	-	71,455	71,455
Total Governmental Funds	\$ 240,678	\$ 4,365,832	\$ 4,606,510

NOTE 8. RETIREMENT PROGRAMS

A. DEFINED BENEFIT PENSION PLANS

District full-time employees receive pension benefits either through the federally administered Civil Service Retirement System or the District's Retirement Programs and the Social Security System.

Plan Descriptions

Civil Service Retirement and Social Security Systems

The Civil Service Retirement System (5 U.S.C. 8331), a cost sharing multiple employer public employee retirement system, covers permanent full-time employees hired before October 1, 1987 (except those covered by the District Retirement Program).

The Balanced Budget Act of 1997 (P. L. 105-33)

mandated an increase in the District's contribution for most Civil Service covered employees from 7% to 8.51% (9.01% for law enforcement officers and firefighters.) This increase became effective for the first pay period ended on or after October 1, 1997. The contribution rate will revert to 7.5% in October 2002, and then back to 7% in January 2003. The employee contribution rate for Civil Service covered employees changed to 7.0% on January 2001.

District contributions to the pension plans administered by the federal government, for the years ended September 30, 2003, 2002, and 2001, were as shown in Table 24. These financial statements are available from the U.S. Office of Personnel Management at www.opm.gov.

NOTE 8. RETIREMENT PROGRAMS

Table 24 - Summary of District Contributions to Federally Administered Pension Plans

Plan	Rate	Employees	2003	2002	2001
Civil Service	8.51%	7,124	\$ 23,637	25,855	27,309
Social Security	7.65%	11,434	<u>\$ 52,000</u>	<u>51,338</u>	<u>48,307</u>
Total			\$ 75,637	77,193	75,616
Total Payroll			\$ 1,565,725	1,585,193	1,198,182

The District has no further liability to the plans.

District Retirement Programs

The Retirement Board administers the District's Retirement Programs (D.C. Code 4-601, 11-1561, 31-120), which are single employer defined benefit pension plans, one established for police and firefighters and the other for teachers.

Each of the two plans provides retirement, death and disability benefits, and annual cost of living adjustments to plan members and beneficiaries. Each pension trust fund issues a publicly available financial report that includes financial statements and required supplementary information. These reports can be obtained from the District of Columbia Retirement Board, Executive Director, 1400 L Street, N. W., Suite 300, Washington, D. C. 20005.

Funding Policy

The Retirement Board establishes, for each pension trust fund, the contribution requirements of plan members and the District government. The Retirement Board, when deemed necessary, may amend these requirements. A summary of the actuarial assumptions is shown in **Table 25**.

Members contribute by salary deductions on the basis of a normal rate of contributions, which is assigned by the Fund at membership. Members contribute 7% (or 8% for teachers hired on or after November 16, 1996) of annual pay minus any pay received for summer school. Members may also contribute up to 10% of annual pay toward an annuity in addition to any vested pension.

The District is required to contribute the remaining amounts necessary to finance the coverage of its employees through periodic contributions at actuarially determined amounts in accordance with the provisions of the Replacement Act. The District contributions for fiscal

year 2003, 2002 and 2001 were equal to the Fund's independent actuary's recommendation.

Under P. L. 105-33, the federal government makes annual contributions to the Police and Firefighters' Plan and to the Teachers' plan on behalf of District employees and retirees. These on-behalf payments totaled \$269,200 for the year ended September 30, 2003 and have been reported as intergovernmental revenue. Related expenditures of \$212,668 and \$56,532 have been reported in the public safety and justice and the public education systems functions, respectively.

NOTE 8. RETIREMENT PROGRAMS**Table 25 - Actuarial Assumptions**

	<u>Police and Fire</u>	<u>Teachers</u>
Contribution rates plan members	7% - 8%	7% - 8%
Actuarial valuation date	10/01/02	10/01/02
Actuarial cost method	Aggregate	Aggregate
Asset valuation method	Market value	Market value
Actuarial assumptions:		
Investment rate of return	7.25%	7.25%
Projected salary increases	5.5% - 8.8%	5.3% - 8.8%
Inflation rate	5%	5%
Cost of living adjustments	5%	5%

*The aggregate actuarial cost method does not identify or separately amortize unfunded actuarial liabilities.

Actuarially Required Contributions

The District made its actuarially required contribution of \$68.9 million to the Police and Firefighters' Plan during the year ended September 30, 2003.

B. DEFINED CONTRIBUTION PENSION PLANS**District of Columbia**

Under the provisions of D. C. Code 1-627, the District sponsors a defined contribution pension plan with a qualified trust under Internal Revenue Code section 401(a) for permanent full-time employees covered under the Social Security System. Employees do not contribute to the plan and are eligible to participate after one year of service. The District contributes 5% of base salaries for eligible employees each pay period. This contribution rate is 5.5% of base salaries for detention officers. Contributions and earnings vest fully after four years of service following a one-year waiting period. Contributions and earnings are forfeited if separation occurs before five years of credited service. These contributions are not considered assets of the District, and the District has no further liability to this plan. For the fiscal year ended September 30, 2003, District contributions to the plan were \$21,000. This plan also covers employees of the Sports Commission, D. C. Housing Authority and Water and Sewer Authority, while the employees of the Housing Finance Agency,

Washington Convention Center and the University are covered under their own separate defined contribution plans.

C. DEFERRED COMPENSATION PLANS**Internal Revenue Code Section 403 Plan**

The District sponsors an annuity purchase plan (D. C. Code 31-1252) with insurance companies and other issuers in accordance with IRC Section 403 for public teachers covered by the District Retirement Program. The District does not contribute to this plan and has no liability to the plan. Under this annuity purchase plan, eligible employees were able to defer up to \$12,000 of their annual compensation for calendar year 2003. Employees with more than fifteen years of service may defer up to \$15,000 for the calendar year 2003. Also an additional deferral of \$2,000 was available to participants who were at least 50 years old before the end of the calendar year. Contributions vest immediately and are not assets of the District.

Internal Revenue Code Section 457 Plan

The District offers its employees a deferred compensation plan (D. C. Code 47-3601) created in accordance with Internal Revenue Code Section 457. Employees, including teachers, were able to defer the lesser of \$12,000 or 100% of includable compensation in calendar

NOTE 8. RETIREMENT PROGRAMS

year 2003. Also an additional deferral of \$2,000 was available to participants who were at least 50 years old before the end of the calendar year. Compensation deferred and income earned are taxable when paid or

made available to the participant or beneficiary upon retirement, death, termination, or unforeseeable emergency. Contributions are not assets of the District, which has no further liability to the plan.

NOTE 9. FUND BALANCE RESERVATIONS/DESIGNATIONS

Reserved and designated fund balances at September 30, 2003 are shown in **Table 26**.

Table 26 - Schedule of FY 2003 Reserved and Designated Fund Balances

	General Fund	Federal & Private Resources	General Capital Improvements	Nonmajor Governmental Funds	Unemployment Compensation Fund	Nonmajor Proprietary Fund	Fiduciary Funds
Reserved							
Long term assets	\$ 1,976	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Emergency reserve	253,800	-	-	-	-	-	-
Bond escrow	213,217	-	-	-	-	-	-
Inventory	13,179	1,079	-	-	-	-	-
Budget	49,321	-	-	-	-	-	-
Purpose restrictions	25,950	149,141	4,199	-	-	-	-
Charter school loan	10,000	-	-	-	-	-	-
Joint venture capital subsidies	-	-	23,284	-	-	-	-
Workers' compensation	800	-	-	-	-	-	-
Tobacco settlement	-	-	-	58,231	-	-	-
Tax increment financing	-	-	-	12,073	-	-	-
Future benefits	-	-	-	-	262,148	-	2,233,975
Highway projects	-	-	-	25,124	-	-	-
Total Reserved Fund Balances	\$ 568,243	\$ 150,220	\$ 27,483	\$ 95,428	\$ 262,148	\$ -	\$ 2,233,975
Unreserved							
Designated:							
Post employment benefits	25,593	-	-	-	-	-	-
Grant disallowances	67,337	-	-	-	-	-	-
Other purpose restrictions	152,033	-	-	-	-	-	-
Undesignated	84,151	-	(169,287)	-	-	35,234	-
Total Unreserved Fund Balances	\$ 329,114	\$ -	\$ (169,287)	\$ -	\$ -	\$ 35,234	\$ -
Total Fund Balances	\$ 897,357	\$ 150,220	\$ (141,804)	\$ 95,428	\$ 262,148	\$ 35,234	\$ 2,233,975

The general capital improvements fund has a negative fund balance of \$(141,804) at September 30, 2003, which will be eliminated by additional operating transfers from the general fund during fiscal year 2004.

NOTE 10. JOINT VENTURE

Washington Metropolitan Area Transit Authority

The Washington Metropolitan Area Transit Authority (WMATA) was created by Interstate Compact by and between Maryland, Virginia and the District of Columbia, pursuant to Public Law 89-774. The District's commitment or obligation to provide financial assistance to WMATA is established by annual appropriations, as approved by Congress. The District supports the Transit Authority through operating and capital grants. The District places the amounts to be provided to WMATA in an escrow account until such time when the funds are

drawn down for use by WMATA. Operating grants may be in the form of operating and interest subsidies. WMATA records the District's operating grants as advanced contributions when received and as nonoperating revenues when the related expenses are incurred. WMATA recognizes the District's capital grants as additions to construction in progress and investment in capital assets when the grant resources are expended for capital acquisitions. A summary of the grants provided to WMATA during the year ended September 30, 2003 is shown in **Table 27**.

Table 27 - Summary of Grants Provided to WMATA

Account	Amount
Operating grants	\$ 144,200
Debt service grants	10,331
Capital grants (less escrow balance)	62,902
Total	\$ 217,433

The WMATA issues separate audited financial statements that can be requested from the Washington Metropolitan Area Transit Authority, General Manager, 600 5th Street, NW, Washington, D. C. 20001.

NOTE 11. TRANSACTIONS WITH THE FEDERAL GOVERNMENT

A. FEDERAL CONTRIBUTION

In accordance with the National Capital Revitalization and Self-Government Improvement Act of 1997 (Public Law 105-33), the annual federal payment in lieu of taxes was repealed and replaced with a Federal contribution to cover special purpose and other unusual costs imposed on the District by the Federal government. Federal contributions to the District for the year ended September 30, 2003 totaled \$363,061.

B. EMERGENCY PREPAREDNESS

The District, as the nation's capital, serves as the command post and the source of first response to any national threat or terrorist act against the nation. The District did not receive any federal payment for emergency preparedness in fiscal year 2003. In prior years, these funds were made available to assist the District to prepare itself and its citizens to more effectively respond to any threat or possible terrorist attack. The total payment of \$155,900 received in fiscal year 2002 was utilized for the specific purposes and expended by September 30, 2003.

C. GRANTS

The District participates in a number of federal award programs, which are funded through formula and project grants, direct payments for specified and unrestricted use, food stamps and other pass-through grants and direct and guaranteed loans.

The federal government also provides capital grants, which are used for the purchase or construction of fixed assets. Capital grants, except for those associated with water and sewer facilities, are recorded as intergovernmental revenue in the General Capital Improvements Fund. Federal grants and contributions are shown by function on the government-wide financial statements.

D. WATER AND SEWER SERVICES

The District exercises no oversight responsibility over the Washington Aqueduct, which is owned by the Federal government and operated by the U. S. Army Corps of Engineers. Historically, the District issued long-term debt to finance most of the Aqueduct's capital facilities and the Water and Sewer Authority recorded this debt and related capital costs in its financial statements. In 1997, the Water and Sewer Authority and the other Northern

NOTE 11. TRANSACTIONS WITH THE FEDERAL GOVERNMENT

Virginia customers entered into an agreement with the federal government, which provides for the funding of the Washington Aqueduct's capital improvement program directly through borrowings. The Water and Sewer Authority is now responsible for funding only its portion of this debt, other related capital projects, and operating costs calculated as its pro rata share of water purchased. The Water and Sewer Authority records payments for capital costs related to the Washington Aqueduct as purchased capacity. Such costs, which are allocable to other jurisdictions, but funded by the Water and Sewer

Authority prior to April 1, 1999 are reported as due from other jurisdictions.

Capital outlays are capitalized and depreciated over 60-years by the Water and Sewer Authority. Total capital outlays including capitalized interest from the U.S. Treasury draw-downs and pay-as-you-go financing were \$6,825 for the fiscal year ended September 30, 2003.

NOTE 12. LEASES

A. CAPITAL LEASES

The District leases buildings and equipment under various agreements that are accounted for as capital leases that have varying terms. Capital lease commitments are recorded in the government-wide financial statements.

Capital lease payments are classified as current expenditures in the governmental funds. Such expenditures totaled \$6,561 in 2003.

Equipment Financing Program

The District began its Master Equipment Lease Purchase Program. (the "Program") in 1998 to provide tax exempt financing for projects with short-term to intermediate-term useful lives. The Program enables the District to improve its asset/liability management by matching the useful life of the asset being financed to the amortization of the liability (5 to 10 years).

As of September 30, 2003, the District had financed approximately \$92.0 million of its capital equipment

needs through the Program, and had approximately \$56.7 million in principal outstanding. During the year, the average interest rate used to finance equipment through the Program was 3.565%, with payments being made on a quarterly basis.

Equipment procured under this program include such items as fire apparatus (trucks) and other emergency medical services equipment (ambulances); trucks and cranes used by the Department of Public Works; vehicles used by the Metropolitan Police Department; and other heavy equipment items.

Lease payment obligations are not debt nor are they general obligations of the District, but are payable from local appropriations. Each schedule under the Program sets forth the principal and interest components of each rental payment payable during the lease term.

Table 28 shows the schedule of equipment financing program payments.

Table 28 – Schedule of Equipment Financing Program Payments

Year Ending September 30	Principal	Interest	Total
2004	18,356	2,272	20,628
2005	15,297	1,419	16,716
2006	14,833	745	15,578
2007	6,421	199	6,620
2008	1,849	24	1,873
Total	\$ 56,756	4,659	61,415

NOTE 12. LEASES**B. OPERATING LEASES**

Operating leases are not recorded in the statement of net assets. These leases contain various renewal options, the effects of which are reflected in the minimum lease payments only if it is considered that the option will be exercised. Certain other operating leases contain escalation clauses and contingent rentals that are not included in the calculation of the future minimum lease payments. Operating lease expenditures recorded in governmental funds were \$105,316 in 2003.

C. SCHEDULES OF FUTURE MINIMUM LEASE COMMITMENTS

The present value of future minimum lease payments under capital leases and minimum lease payments for all operating leases having non-cancelable terms in excess of one year at September 30, 2003 are shown in **Table 29**.

Table 29 - Schedule of Future Minimum Lease Payments

Year Ending September 30	Primary Government			Component Units		
	Operating Leases		Facilities	Operating Leases		Equipment
	Capital	Leases		Facilities	Equipment	
2004	\$ 8,791	\$ 72,911	\$ 6,473	\$ -	\$ 1,450	
2005	12,512	74,787	1,781	-	-	1,450
2006	12,489	77,757	710	-	-	1,450
2007	12,436	81,428	177	-	-	1,450
2008	10,715	72,290	-	-	-	1,450
2009-2013	53,572	106,296	-	-	-	7,250
2014-2018	11,547	-	-	-	-	7,250
2019-2023	-	-	-	-	-	4,465
Minimum lease payments	122,062	\$ 485,469	\$ 9,141	\$ -	\$ 26,215	
Less - imputed interest	31,604					
Present value of payments	\$ 90,458					

NOTE 13. COMMITMENTS AND CONTINGENCIES**A. RISK MANAGEMENT**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District pays all claim settlements and judgments out of its General Fund resources and reports all of its risk management activities as governmental activities in the government-wide financial statements. Claims expenditures and liabilities are reported in the government-wide financial statements when it is probable that loss has occurred and the amount of that loss can be reasonably estimated and in the General Fund when due and payable. These losses include an estimate of claims that have been incurred but not reported.

B. GRANTS AND CONTRACTS

The District has received federal grants for specific purposes that are subject to review and audit by the grantor agencies. Claims against these resources are generally conditional upon compliance with the terms and conditions of grant agreements and applicable federal regulations, including the expenditure of resources for allowable purposes. Any disallowance resulting from an audit may become a liability of the District. The audits of these federally assisted programs have not been conducted for the year ended September 30, 2003. As such, the District's compliance with applicable grant and federal requirements will be assessed and established at some future date. An accrual of \$67,336 in the government-wide financial statements has been provided

NOTE 13. COMMITMENTS AND CONTINGENCIES

which estimates the probable cumulative expenditures that may be disallowed by the granting agencies based on prior experience.

C. LITIGATION

The District is named as a party in legal proceedings and investigations that occur in the normal course of governmental operations. Although the ultimate outcome of these legal proceedings and investigations is unknown, the District is vigorously defending its position in each case. All amounts in connection with lawsuits in which a loss is probable have been included in the provision for claims and judgments at September 30, 2003.

The accrued liability is based on estimates of the payments that will be made upon judgment or resolution of the claim. This accrued amount is the minimum amount in the range of estimates that have the same probability of occurrence. The sum of excess of the range of probable losses and the minimum range of losses that are reasonably possible which are not accrued is estimated to be \$125,500.

Summary of the changes in the accrued liability for claims and judgments in the government-wide financial statements is shown in **Table 30**.

Table 30 - Summary of Changes in Claims and Judgments Accrual

Description	2003	2002
Liability at October 1	\$ 28,969	\$ 86,890
Incurred claims	40,753	7,959
Less:		
claims payments/adjustments	(18,693)	(65,880)
Liability at September 30	<u>\$ 51,029</u>	<u>\$ 28,969</u>

D. DISABILITY COMPENSATION

The District, through its risk management department, administers a disability compensation program under Title XXIII of the District of Columbia Comprehensive Merit Personnel Act of 1978 (CMPA). This program, which covers all District employees hired under the authority of CMPA, provides compensation for lost wages, medical expenses, and other limited rehabilitation expenses to eligible employees and/or their dependents, where a work-related injury or illness results in disability or death. The benefits are funded on a pay-as-you-go basis. The present value at 6.3% of projected disability

compensation is accrued in the government-wide financial statements.

A summary of changes in this accrual is shown in **Table 31**.

Table 31 – Summary of Changes in Disability Compensation Accrual

Description	2003	2002
Liability at October 1	\$ 231,883	\$ 200,531
Claims incurred	64,738	64,179
Less-benefit payments	(35,850)	(32,827)
Liability at September 30	<u>\$ 260,771</u>	<u>\$ 231,883</u>

E. INTEREST RATE SWAP AGREEMENTS

Part of the District's debt strategy is to have a mixture of fixed-rate and variable-rate debt to take advantage of market fluctuations. The District's strategy is to have a mixture of fixed- and variable-rate debt to take advantage of market fluctuations. Because the District anticipates that interest rates might decline, it decides to synthetically create variable-rate debt by entering into a derivative.

Terms

2002D Swap

On October 31, 2002, the District entered into a floating-to-fixed rate swap in connection with its \$124,995 Multimodal General Obligation Refunding Bonds, Series 2002D ("2002D Swap"). The original notional amount of the swap is \$124,995. Under the terms of the swap, entered into in 2002 and scheduled to terminate in 2031, the District pays a fixed-rate of 3.617% and receives variable rate payments equivalent to the Bond Market Association Municipal Swap Index (BMA) until December 1, 2004 and at 67% of LIBOR thereafter. The notional value of the swap and the principal amount of the associated debt service begins to decline in fiscal year 2015.

2002 B Swaps

On October 15, 2002, the District entered into a floating-to-fixed rate swap in connection with its \$224,300 Multimodal General Obligation Bonds, Series 2002B ("2002B Swap"). The original notional amount of the swap was \$224,300. Under the terms of the swap, entered into in 2002 and scheduled to terminate in 2027, the

NOTE 13. COMMITMENTS AND CONTINGENCIES

District pays a fixed-rate of 3.615% and receives variable rate payments equivalent to BMA until December 1, 2004 and at 67% of LIBOR thereafter. The notional value of the swap and the principal amount of the associated debt service begins to decline in fiscal year 2020.

2001C/D Swap

On December 6, 2001, the District entered into a floating-to-fixed rate swap in connection with its \$214,155 Multimodal General Obligation Bonds, Series 2001C and its \$69,715 Multimodal General Obligation Refunding Bonds, Series 2001D ("2001C/D Swap"). The original notional amount of the swap was \$283,870. Two firms, Bear, Stearns & Co. Inc. ("Bear Stearns") and UBS PaineWebber, Inc. ("UBS PaineWebber"), negotiated the split of this swap transaction. As a result, Bear Stearns and UBS PaineWebber received 62.5% and 37.5% of the notional amount of the swap, respectively. Under the terms of the swap, entered into in 2001 and scheduled to terminate in 2029, the District pays a fixed-rate of 4.004% and receives variable rate payments equivalent to BMA until June 2, 2003 and at 67% of LIBOR thereafter. The notional value of the swap and the principal amount of the associated debt service begins to decline in fiscal year 2003.

On June 2, 2003, the District entered into an enhanced interest rate swap agreement for the 2001C/D Bond issue ("2001C/D Enhanced Swap"). Based on the 2001 Enhanced Swap agreement, the District and the counterparty pay one another interest based on a variable rate index. Only the net difference in interest payments is actually exchanged between the counterparties.

1992A/2001A Swap

On March 26, 1992, the District entered into a floating-to-fixed rate swap in connection with its \$299,800 General Obligation Variable Rate Refunding Bonds, Series 1992A ("1992A/2001A Swap"). The 1992A Bonds were refunded by the District's \$114,150 Multimodal General Obligation Refunding Bonds, Series 2001A. The original notional amount of the swap was \$299,800. Under the terms of the swap, entered into in 1992 and scheduled to terminate in 2007, the District pays a fixed-rate of 6.02% and receives variable rate payments equivalent to the J.J. Kenny Index. The notional value of the swap and the principal amount of the associated debt service began to decline in fiscal year 1992.

Fair Market Value

As of September 30, 2003, the 2002D, 2002B, 2001C/D and 1992A/2001A Swaps ("Swaps") had fair market

values as shown in Table 32:

Table 32 – Swaps Fair Market Values

Swaps Fair Market Values	
2002D Swap	(4,350)
2002B Swap	(7,939)
2001C/D (Enhanced Swap)	(3,382)
2001C/D (Bear Stearns)	(17,181)
2001C/D (UBS PaineWebber)	(10,309)
2001A	(4,171)
Total	(47,332)

The market value was provided by the counterparty to each respective swap and confirmed by Phoenix Capital Advisors.

Credit Risk

The swaps' fair market value represents the District's obligation to the counterparties if the swaps were terminated. As of September 30, 2003, the District is not exposed to any credit risk because the swaps have a negative fair value. Should the counterparty to these transactions fail to perform according to the terms of the swaps' contracts, the District face a maximum possible loss equivalent to the swaps' fair market value (\$47,332 in aggregate). As of September 30, 2003, Standard & Poor's and Moody's rated the counterparty to each swap as follows:

Swap	Counterparty	Credit Rating
2002D	Lehman Brothers	A/A2
2002B	Morgan Stanley	A+/Aa3
2001C/D	Bear Stearns	AAA/Aaa (Insured)
2001C/D	UBS PaineWebber	AAA/Aaa (Insured)
2001C/D	Bear Stearns	AA+/Aa2
2001A	Merrill Lynch	A+/Aa3

Basis Risk

District is subject to basis risk if the variable payment received from the counterparty does not equal the rate on the bonds.

Termination Risk

The District or the counterparty may terminate the swap if the other party fails to perform under the terms of the contract. The swap uses the International Swap Dealers Association Master Agreement, which includes standard

NOTE 13. COMMITMENTS AND CONTINGENCIES

termination events. The Schedule to the Master Agreement defines an “additional termination event.” That is, the swap may be terminated if the counterparty or its Credit Support Provider, or the District has one or more outstanding issues of rated unsecured, unenhanced senior debt and none of such issues has a rating of at least (i) Baa3 or higher as determined by Moody’s Investors Service, Inc., (ii) BBB- or higher as determined by Standard & Poor’s Ratings Service, A Division of the McGraw-Hill Companies, Inc. or (iii) an equivalent investment grade rating determined by a nationally-

recognized rating service acceptable to both parties.

Swap Payments and Associated Debt

Using interest rates as of September 30, 2003, principal and interest requirements of the fixed-rate debt and net swap payments are shown in **Table 33**. As rates vary, net swap payments will vary. As the principal on the variable rate bonds mature, the swaps’ notional amount likewise diminishes, or amortizes as well.

Table 33 – Swaps Interest Requirements

Primary Government	Governmental Activities			Interest Rate Swaps, Net	Total
	General Obligation	Principal	Interest		
Year Ending September 30					
2004	\$ 146,505	\$ 161,661	\$ 9,785	\$ 317,951	
2005	166,020	153,140	18,804	337,964	
2006	174,185	143,991	17,712	335,888	
2007	180,865	134,737	17,059	332,661	
2008	190,615	124,798	16,570	331,983	
2009 - 2013	866,813	511,765	78,181	1,456,759	
2014 - 2018	479,990	312,290	69,021	861,301	
2019 - 2023	503,700	185,571	51,793	741,064	
2024 - 2028	498,555	64,009	18,254	580,818	
2029 - 2034	43,870	2,359	725	46,954	
Total	\$ 3,251,118	\$ 1,794,321	\$ 297,904	\$ 5,343,343	

F. DEBT SERVICE DEPOSIT AGREEMENTS

The District entered into debt service deposit agreements effective through 2014 that exchanged future cash flows of certain special tax fund escrow accounts for a fixed amount received by the District upon entering into the agreements, thus increasing the predictability of cash flows from the earnings on escrow account investments. Upon early termination of an agreement and depending upon the then current interest rates, a termination amount may be owed by the District. At September 30, 2003, deferred revenue of \$7,104 related to this agreement is recorded in the government-wide financial statements.

NOTE 14 SUBSEQUENT EVENTS**A. ISSUANCE OF BONDS, NOTES AND OTHER OBLIGATIONS**

On December 11, 2003, the District issued its Series 2003B General Obligation Bonds in the aggregate principal amount of \$173,995 (the “2003B Bonds”). The proceeds of these bonds will be used to finance a portion of the District’s fiscal year 2004 capital improvements program and pay the swap termination fee (as described herein). In connection with the issuance of the 2003B Bonds, the District on October 9, 2003, entered into an interest rate hedge agreement in the notional amount of \$175,000, with an interest rate of 4.263%. The District terminated such agreement on December 3, 2003, and upon such termination paid a termination fee of \$4,750. Also, on December 11, 2003, the District issued its Series 2003C and 2003D Multimodal General Obligation Bonds in the aggregate principal amount of \$140,325 (the “2003C Bonds” and “2003D Bonds,” respectively). The proceeds of these bonds are being used to finance a portion of the District’s fiscal year 2004 capital improvements program. The 2003B, 2003C and 2003D Bonds, together with other outstanding general obligation bonds and bonds to be issued in the future, are general obligations of the District, secured by the District’s full faith and credit and further secured by the Special Real Property Tax, and are issued under Section 461 of the Home Rule Act. The Series 2003C and 2003D Bonds bear interest at variable rates from the date of issue until maturity, unless converted to a fixed rate. The Series 2003B Bonds were issued as fixed-rate bonds. The final maturities of the 2003B, 2003C and 2003D Bonds are June 1, 2021, 2028, and 2026, respectively.

On December 2, 2003, the District issued Fiscal Year 2004 General Obligation Tax Revenue Anticipation Notes in the aggregate principal amount of \$250,000 (the “Notes”). The proceeds of these notes were issued to finance general governmental expenses of the District in anticipation of the collection or receipt of revenues for fiscal year 2004. The notes are general obligations of the District, secured by the District’s full faith and credit, and payable from available revenues, including tax revenues, of the District. The Notes were issued as fixed-rate notes, and mature on September 30, 2004.

B. HOUSING FINANCE AGENCY

On December 24, 2003 the Agency issued Single Family Draw-Down bonds Series 2003 for \$230.85 million and concurrently redeemed Single Family Draw-Down bonds Series 2002 for \$221.84 million.

REQUIRED SUPPLEMENTARY INFORMATION**SEPTEMBER 30, 2003**

Six-year historical trend information of the retirement systems administered by the reporting entity is presented in the following tables as required supplementary information.

Police and Fire Pension Plan

Year Ended	Annual Pension Cost (APC) (millions)	Percentage of APC Contributed	Net Pension Obligation
09/30/03	\$ 68.9	100%	\$ 0
09/30/02	74.6	100%	0
09/30/01	49.0	100%	0
09/30/00	39.9	100%	0
09/30/99	35.1	100%	0
09/30/98	47.7	100%	0

Teachers Pension Plan

Year Ended	Annual Pension Cost (APC) (millions)	Percentage of APC Contributed	Net Pension Obligation
09/30/03	\$ 0	100%	\$ 0
09/30/02	0	100%	0
09/30/01	.2	100%	0
09/30/00	10.7	100%	0
09/30/99	18.6	100%	0
09/30/98	9.6	100%	0

(Unaudited – See Accompanying Independent Auditor's Report)

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GENERAL FUND

The General Fund is used to account for all financial resources that are not required to be accounted for in another fund.

Exhibit A-1

GENERAL FUND
BALANCE SHEET
September 30, 2003
(With Comparative Totals at September 30, 2002)
(\$000s)

	2003	2002
ASSETS		
Cash and cash equivalents (unrestricted)	\$ 524,008	47,936
Investments	46,141	439,996
Receivables (net of allowances for uncollectibles):		
Taxes	226,189	234,244
Accounts	86,856	116,744
Intergovernmental	-	4,248
Due from component units	957	9,927
Interfund	255,863	282,506
Inventories	13,179	9,891
Other current assets	4,529	23,612
Cash and cash equivalents (restricted)	<u>467,017</u>	<u>447,431</u>
Total assets	<u><u>\$ 1,624,739</u></u>	<u><u>1,616,535</u></u>
LIABILITIES AND FUND BALANCE		
Payables:		
Accounts	336,032	308,845
Compensation:		
Salaries and wages	115,108	121,706
Employee benefits	4,894	3,400
Payroll taxes	15,531	4,917
Other deductions	3,575	2,348
Due to component units	24,961	28,107
Interfund	721	11,443
Accrued liabilities:		
Claims and judgments	-	5,000
Grant disallowances	5,643	-
Medicaid	48,130	59,610
Tax refunds	44,994	69,663
Deferred revenue:		
Property taxes	83,139	86,443
Other deferrals	20,847	24,092
Other current liabilities	<u>23,807</u>	<u>25,633</u>
Total liabilities	<u><u>727,382</u></u>	<u><u>751,207</u></u>
Fund Balance:		
Reserved	568,243	545,414
Unreserved	<u>329,114</u>	<u>319,914</u>
Total fund balance	<u><u>897,357</u></u>	<u><u>865,328</u></u>
Total liabilities and fund balance	<u><u>\$ 1,624,739</u></u>	<u><u>1,616,535</u></u>

See Accompanying Independent Auditors' Report.

Exhibit A-2

GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
Year Ended September 30, 2003
(With Comparative Totals for Year Ended September 30, 2002)
(\$000s)

	2003	2002
Revenues:		
Taxes	\$ 3,384,093	3,229,809
Licenses and permits	62,189	52,003
Fines and forfeits	90,238	88,495
Charges for services:		
Public	107,970	88,333
Intergovernmental	13,056	10,741
Interfund	7,605	7,168
Miscellaneous:		
Public	202,492	179,505
Investment income	3,948	10,550
Intergovernmental:		
Operating grants	722	-
Total revenues	<u>3,872,313</u>	<u>3,666,604</u>
Expenditures:		
Current:		
Governmental direction and support	307,245	339,819
Economic development and regulation	135,753	115,695
Public safety and justice	656,934	634,867
Public education system	921,499	929,988
Human support services	1,249,091	1,080,729
Public works	151,191	146,786
Public transportation	154,531	148,493
Debt service:		
Principal	141,041	131,750
Interest	135,593	135,688
Fiscal charges	15,338	4,744
Total expenditures	<u>3,868,216</u>	<u>3,668,559</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>4,097</u>	<u>(1,955)</u>
Other Financing Sources (Uses):		
Proceeds from long-term bonds	251,345	72,525
Payment to refunded bond escrow agent:		
Refunded debt	(203,820)	(63,565)
Other charges	(30,359)	(5,922)
Transfers:		
Interfund transfers in	72,050	78,848
Interfund transfers out	(61,284)	(52,476)
Total other financing sources (uses)	<u>27,932</u>	<u>29,410</u>
EXCESS OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	<u>32,029</u>	<u>27,455</u>
Fund Balance at October 1	<u>\$ 865,328</u>	<u>837,873</u>
Fund Balance at September 30	<u>\$ 897,357</u>	<u>865,328</u>

See Accompanying Independent Auditors' Report.

Exhibit A-3

GENERAL FUND
SCHEDULE OF EXPENSES AND NET FINANCING (SOURCES) USES
FUNCTION AND OBJECT –GAAP BASIS
Year Ended September 30, 2003
(With Comparative Totals for Year Ended September 30, 2002)
(\$000s)

Function and Subfunction	Personal Services	Contractual Services	Supplies	Occupancy	Miscellaneous	Total	
						2003	2002
Governmental Direction and Support:							
Legislative	\$ 11,318	718	118	302	1,212	13,668	14,386
Executive	45,839	33,204	344	4,423	3,118	86,928	107,242
Finance	53,642	16,425	556	8,435	63,567	142,625	144,242
Personnel	9,411	9,868	198	1,003	360	20,840	27,733
Administrative	21,487	10,698	424	4,697	1,188	38,494	41,168
Elections	3,084	1,090	53	364	99	4,690	5,048
Total	<u>144,781</u>	<u>72,003</u>	<u>1,693</u>	<u>19,224</u>	<u>69,544</u>	<u>307,245</u>	<u>339,819</u>
Economic Development and Regulation:							
Community development	10,821	13,606	217	1,943	17,898	44,485	41,041
Economic regulation	37,688	8,125	503	7,880	3,491	57,687	51,108
Employment services	9,256	4,483	248	7,536	12,058	33,581	23,546
Total	<u>57,765</u>	<u>26,214</u>	<u>968</u>	<u>17,359</u>	<u>33,447</u>	<u>135,753</u>	<u>115,695</u>
Public Safety and Justice:							
Police	285,012	37,353	3,870	10,959	60,370	397,564	378,917
Fire	120,757	4,561	1,201	3,479	20,919	150,917	152,036
Corrections	50,419	43,577	60	6,464	1,617	102,137	97,736
Protection	3,131	966	131	1,250	452	5,930	5,903
Law	35	37	2	9	10	93	-
Judicial	214	58	6	1	14	293	275
Total	<u>459,568</u>	<u>86,552</u>	<u>5,270</u>	<u>22,162</u>	<u>83,382</u>	<u>656,934</u>	<u>634,867</u>
Public Education System:							
Schools	484,234	69,108	17,449	32,584	284,745	888,120	897,237
Culture	20,577	2,832	423	2,458	7,089	33,379	32,751
Total	<u>504,811</u>	<u>71,940</u>	<u>17,872</u>	<u>35,042</u>	<u>291,834</u>	<u>921,499</u>	<u>929,988</u>
Human Support Services:							
Health and welfare	179,247	263,067	4,691	47,618	664,737	1,159,360	994,909
Human relations	2,548	3,630	38	191	12,186	18,593	18,484
Employment benefits	38,957	-	-	-	-	38,957	36,863
Recreation	23,133	3,945	833	3,306	964	32,181	30,474
Total	<u>243,885</u>	<u>270,642</u>	<u>5,562</u>	<u>51,115</u>	<u>677,887</u>	<u>1,249,091</u>	<u>1,080,730</u>
Public Works							
	<u>68,365</u>	<u>51,872</u>	<u>2,384</u>	<u>13,943</u>	<u>14,627</u>	<u>151,191</u>	<u>146,786</u>
Public Transportation							
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>154,531</u>	<u>154,531</u>	<u>148,493</u>
Debt Service							
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>291,972</u>	<u>291,972</u>	<u>272,182</u>
Net Financing (Sources) Uses							
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(27,932)</u>	<u>(27,932)</u>	<u>(29,410)</u>
Total expenses and net sources							
	<u>\$ 1,479,175</u>	<u>579,223</u>	<u>33,749</u>	<u>158,845</u>	<u>1,589,292</u>	<u>3,840,284</u>	<u>3,639,150</u>

See Accompanying Independent Auditors' Report.

Exhibit A-4

GENERAL FUND

SCHEDULE OF LOCAL SOURCE REVENUES
BUDGET AND ACTUAL (BUDGETARY BASIS)Year Ended September 30, 2003
(\$000s)

Source	Budget			Variance - Favorable (Unfavorable)
	Original	Revised	Actual	
Taxes:				
Property:				
Real	\$ 780,647	818,936	822,845	3,909
Personal	64,356	65,271	67,294	2,023
Public space rental	11,808	12,865	11,749	(1,116)
Total	856,811	897,072	901,888	4,816
Sales and use:				
General	644,739	648,009	631,465	(16,544)
Alcoholic beverages	4,959	4,502	4,619	117
Cigarette	20,910	22,863	21,344	(1,519)
Motor vehicles	32,586	33,273	37,066	3,793
Total	703,194	708,647	694,494	(14,153)
Income and franchise:				
Individual income	923,022	924,206	928,968	4,762
Corporation franchise	171,931	137,065	156,777	19,712
Unincorporated businesses	63,440	63,892	81,707	17,815
Total	1,158,393	1,125,163	1,167,452	42,289
Gross receipts:				
Public utility	158,341	151,754	166,743	14,989
Toll telecommunication	65,589	64,958	53,324	(11,634)
Insurance companies	35,300	34,000	41,281	7,281
Total	259,230	250,712	261,348	10,636
Other:				
Deed recordation	115,573	93,495	134,262	40,767
Deed transfers	81,610	70,905	99,052	28,147
Inheritance and estate	51,910	39,808	29,944	(9,864)
Economic interests	1,106	707	4,934	4,227
Total	250,199	204,915	268,192	63,277
Total taxes	3,227,827	3,186,509	3,293,374	106,865
Licenses and Permits:				
Business licenses	42,612	30,964	35,195	4,231
Nonbusiness permits	19,112	30,908	24,566	(6,342)
Total	61,724	61,872	59,761	(2,111)
Fines and Forfeits				
	102,300	104,162	88,455	(15,707)
Charges for Services:				
Right of way	-	-	376	376
Other	49,309	49,281	65,360	16,079
Total	49,309	49,281	65,736	16,455
Miscellaneous:				
Interest	25,991	11,587	9,906	(1,681)
Other	54,806	58,388	79,999	21,611
Total	80,797	69,975	89,905	19,930
Total local source revenues	\$ 3,521,957	3,471,799	3,597,231	125,432

See Accompanying Independent Auditors' Report.

GENERAL FUND
SCHEDULE OF BUDGETARY BASIS REVENUES AND EXPENDITURES BY SOURCE OF FUNDS
Year Ended September 30, 2003

	Local Source			Other Source			Total					
	Original Budget	Revised Budget	Actual	Variance	Original Budget	Revised Budget	Actual	Variance	Original Budget	Revised Budget	Actual	Variance
Revenues and Sources:												
Taxes												
Property	\$ 856,811	897,072	901,888	4,816					856,811	897,072	901,888	4,816
Sales and uses	703,194	708,647	694,494	(14,153)					703,194	708,647	694,494	(14,153)
Income and franchise	1,158,393	1,125,163	1,157,452	42,289					1,158,393	1,125,163	1,167,452	42,289
Gross receipts and other taxes	509,429	455,627	529,340	73,913					509,429	455,627	529,540	73,913
Total taxes	3,227,827	3,186,509	3,233,374	106,865					3,227,827	3,186,509	3,293,374	106,865
Licenses and permits	61,724	61,872	59,761	(2,111)					61,724	61,872	59,761	(2,111)
Fines and forfeits	102,300	104,162	88,455	(15,707)					102,300	104,162	88,455	(15,707)
Charges for services	49,309	49,281	55,736	16,455					49,309	49,281	65,736	16,455
Miscellaneous	80,797	69,975	89,905	19,930					80,797	69,975	89,905	19,930
Other	-	-	-	-					156,378	227,610	164,125	(63,485)
Federal contributions	-	-	520	520					156,378	227,610	164,125	(63,485)
General obligation bonds	-	-	11,403	11,403					-	-	-	-
Fund balance released from restrictions	10,000	53,100	1,802	(51,298)					18,485	72,825	21,527	(51,298)
Interfund transfer	70,900	68,600	72,050	3,450					70,900	68,600	72,050	3,450
Total Revenues and Sources	<u>3,602,857</u>	<u>3,593,499</u>	<u>3,603,070</u>	<u>3,603,006</u>	<u>89,507</u>	<u>164,863</u>	<u>247,335</u>	<u>183,350</u>	<u>(63,485)</u>	<u>3,767,720</u>	<u>3,840,834</u>	<u>3,866,356</u>
Expenditures and Uses:												
Governmental direction and support	207,971	203,670	199,089	4,581	18,348	17,759	10,775	6,984	226,319	221,429	209,864	11,565
Economic development and regulation	56,872	57,982	56,520	1,462	89,456	139,500	78,714	60,786	146,328	135,234	197,482	62,248
Public safety and justice	602,678	655,941	646,732	9,209	8,524	20,759	12,747	8,012	61,1202	676,700	659,479	17,221
Public education system	922,174	878,253	874,389	3,864	7,165	10,043	7,371	2,672	929,339	888,296	881,760	6,356
Public education FY04 expenditure	-	34,965	34,965	-	31,045	34,744	19,823	14,921	-	34,965	34,965	-
Human support services	1,032,151	1,146,854	1,143,813	3,041	(99,075)	10,325	24,330	12,716	11,814	1,181,598	1,163,636	17,962
Write-off mental health receivable	-	-	99,075	-	-	-	-	-	-	99,075	99,075	(99,075)
Public works	303,363	294,683	293,952	731	-	-	-	-	313,688	319,213	306,668	12,345
Workforce investments	48,186	2,699	2,699	-	-	-	-	-	48,186	2,699	-	2,699
Wilson building	4,194	3,894	3,875	19	-	-	-	-	4,194	3,894	3,875	19
Reserve	70,000	-	-	-	-	-	-	-	70,000	-	-	-
Repay bonds and interest	257,951	252,523	250,649	1,874	-	-	-	-	257,951	252,523	250,649	1,874
Repay deficit bonds and interest	39,300	39,300	39,043	257	-	-	-	-	39,300	39,300	39,043	257
Interest on short term borrowing	1,000	3,292	3,288	4	-	-	-	-	1,000	3,292	3,288	4
Certificates of participation	7,950	5,658	2,280	3,378	-	-	-	-	7,950	5,658	2,280	3,378
Settlements and judgments fund	22,822	23,356	23,356	-	-	-	-	-	22,822	23,356	23,356	-
Non-departmental agency	5,799	-	-	-	-	-	-	-	5,799	-	-	-
Total Expenditures and Uses	<u>3,602,411</u>	<u>3,603,070</u>	<u>3,671,026</u>	<u>(67,956)</u>	<u>164,863</u>	<u>247,335</u>	<u>142,146</u>	<u>105,189</u>	<u>3,767,724</u>	<u>3,850,405</u>	<u>3,813,172</u>	<u>37,233</u>
Excess (Deficiency) of Revenues and Sources Over (Under) Expenditures and Uses	<u>\$ 446</u>	<u>(9,571)</u>	<u>11,980</u>	<u>21,551</u>	<u>-</u>	<u>-</u>	<u>41,704</u>	<u>41,704</u>	<u>-</u>	<u>446</u>	<u>(9,571)</u>	<u>53,684</u>
See Accompanying <i>Independent Auditors' Report.</i>												<u>63,255</u>

Exhibit A-6

GENERAL FUND
SCHEDULE OF BUDGETARY BASIS REVENUES AND EXPENDITURES
Year Ended September 30, 2003
(\$000s)

	Original Budget	Revisions	Revised Budget	Actual	Variance To Original Budget
Revenues and Sources:					
Taxes:					
Property	\$ 856,811	40,261	897,072	901,888	45,077
Sales and use	703,194	5,453	708,647	694,494	(8,700)
Income and franchise	1,158,393	(33,230)	1,125,163	1,167,452	9,059
Other taxes	509,429	(53,802)	455,627	529,540	20,111
Total taxes	3,227,827	(41,318)	3,186,509	3,293,374	65,547
Licenses and permits	61,724	148	61,872	59,761	(1,963)
Fines and forfeits	102,300	1,862	104,162	88,455	(13,845)
Charges for services	49,309	(28)	49,281	65,736	16,427
Miscellaneous	80,797	(10,822)	69,975	89,905	9,108
Other	156,378	71,232	227,610	164,125	7,747
Federal contributions	-	-	-	520	520
General obligation bonds	-	-	-	11,403	11,403
Fund balance released from restriction	18,485	54,340	72,825	21,527	3,042
Interfund transfers	70,900	(2,300)	68,600	72,050	1,150
Total Revenues and Sources	3,767,720	73,114	3,840,834	3,866,856	99,136
Expenditures and Uses:					
Governmental direction and support	226,319	(4,890)	221,429	209,864	16,455
Economic development and regulation	146,328	51,154	197,482	135,234	11,094
Public safety and justice	611,202	65,498	676,700	659,479	(48,277)
Public education system	929,339	(41,043)	888,296	881,760	47,579
Public education FY04 expenditures	-	34,965	34,965	34,965	(34,965)
Human support services	1,083,196	98,402	1,181,598	1,163,636	(80,440)
Write-off mental health receivable	-	-	-	99,075	(99,075)
Public works	313,688	5,525	319,213	306,668	7,020
Workforce investments	48,186	(45,487)	2,699	-	48,186
Wilson Building	4,194	(300)	3,894	3,875	319
Reserve	70,000	(70,000)	-	-	70,000
Repay bonds and interest	257,951	(5,428)	252,523	250,649	7,302
Repay deficit bonds and interest	39,300	-	39,300	39,043	257
Interest on short term borrowing	1,000	2,292	3,292	3,288	(2,288)
Certificates of participation	7,950	(2,292)	5,658	2,280	5,670
Settlements and judgments fund	22,822	534	23,356	23,356	(534)
Non-departmental agency	5,799	(5,799)	-	-	5,799
Total Expenditures and Uses	3,767,274	83,131	3,850,405	3,813,172	(45,898)
Excess (Deficiency) of Revenues and Sources Over (Under)					
Expenditures and Uses	\$ 446	(10,017)	(9,571)	53,684	53,238

See Accompanying Independent Auditors' Report.

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NONMAJOR GOVERNMENTAL FUNDS

Special Revenue Funds

The **Tax Increment Financing (TIF) Program Fund** is used to account for activities relating to various TIF development initiatives.

The **Tobacco Settlement Financing Corporation (TSFC) Fund** is used to account for the tobacco litigation settlement activities of the District of Columbia.

Capital Projects Fund

The **Highway Trust Fund** is used to account for the motor vehicle fuel taxes and other fees collected and used by the District for highway projects.

Exhibit B-1

NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
September 30, 2003
(With Comparative Totals for Year Ended September 30, 2002)
(\$000s)

	Tax Increment Financing Program	Tobacco Settlement Financing Corporation	Highway Trust	2003	2002
ASSETS					
Current Assets:					
Cash and cash equivalents	\$ 12,067	\$ 221	\$ 9,328	\$ 21,616	\$ 204
Investments	-	-	-	-	81,360
Receivables (net of allowances for uncollectibles):					
Accounts	-	-	3,113	3,113	3,203
Due from other funds	-	-	-	-	11,718
Interfund	-	-	-	-	11,443
Accrued interest	6	8	-	14	29
Restricted cash and investments	-	58,115	20,980	79,095	66,858
Total assets	\$ 12,073	\$ 58,344	\$ 33,421	\$ 103,838	\$ 174,815
LIABILITIES AND FUND BALANCE					
Current Liabilities:					
Payables:					
Accounts	-	-	90	90	92
Accrued liabilities	-	113	-	113	110
Due to other funds	-	-	8,207	8,207	19,740
Total liabilities	-	113	8,297	8,410	19,942
Fund Balance:					
Reserved	12,073	58,231	25,124	95,428	154,873
Unreserved	-	-	-	-	-
Total fund balance	12,073	58,231	25,124	95,428	154,873
Total liabilities and fund balance	\$ 12,073	\$ 58,344	\$ 33,421	\$ 103,838	\$ 174,815

See Accompanying Independent Auditors' Report.

Exhibit B-2

NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
Year Ended September 30, 2003
(With Comparative Totals for Year Ended September 30, 2002)
(\$000s)

	Tax Increment Financing Program	Tobacco Settlement Financing Corporation	Highway Trust	Total	
				2003	2002
Revenues:					
Interest	\$ 194	\$ 2,645	\$ 234	\$ 3,073	\$ 5,529
Other	1,236	44,546	-	45,782	54,651
Total revenues	1,430	47,191	234	48,855	60,180
Expenditures:					
Current:					
Governmental direction and support	-	197	-	197	358
Bond principal payment	1,021	7,730	-	8,751	6,825
Capital outlay	15,549	-	41,393	56,942	127,679
Other	-	-	-	-	9,078
Interest	4,444	38,264	-	42,708	39,496
Total expenditures	21,014	46,191	41,393	108,598	183,436
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES					
	(19,584)	1,000	(41,159)	(59,743)	(123,256)
Other Financing Sources (Uses):					
Transfers in	-	-	26,808	26,808	38,348
Transfers out	-	-	(26,510)	(26,510)	-
Tax increment financing bonds	-	-	-	-	119,645
Total other financing sources	-	-	298	298	157,993
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES					
	(19,584)	1,000	(40,861)	(59,445)	34,737
Fund Balances at October 1	31,657	57,231	65,985	154,873	120,136
Fund Balances at September 30	\$ 12,073	\$ 58,231	\$ 25,124	\$ 95,428	\$ 154,873

See Accompanying Independent Auditors' Report.

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FIDUCIARY FUNDS

The Fiduciary Funds are used to account for assets held by the District in a trustee or agency capacity. These assets cannot be used to support the District's programs. The District has the following Fiduciary Funds:

The **Pension Trust Funds** are used to account for the accumulation of resources to be used for retirement annuity payments at appropriate amounts and times in the future for police officers, fire fighters and public school teachers of the District. Resources are contributed by employees and by the District and federal governments at amounts determined by an annual actuarial study. The funds are administered by a thirteen member Retirement Board. Three of these members are appointed by the Mayor and three by the Council. The other members include one each active and retired police officers, fire fighters, and teachers. The administrative costs of the board are accounted for in the funds.

The **Private Purpose Trust Fund** is used to account for the District's sponsored college tuition savings plan.

The **Agency Funds** are used to account for refundable deposits required of various licensees, monies held in escrow as an agent for individuals, private organizations or other governments.

Exhibit C-1

PENSION TRUST FUNDS
COMBINING STATEMENT OF FIDUCIARY NET ASSETS
September 30, 2003
(With Comparative Totals at September 30, 2002)
(\$000s)

	Police and Fire	Teachers	Total	
			2003	2002
ASSETS				
Current Assets:				
Cash and cash equivalents - restricted	\$ 250,526	\$ 136,327	\$ 386,853	\$ 325,956
Investments - restricted	1,203,187	809,357	2,012,544	1,631,327
Benefit contribution receivables	1,312	1,548	2,860	2,635
Due from other funds	-	46	46	78
Total assets	<u>1,455,025</u>	<u>947,278</u>	<u>2,402,303</u>	<u>1,959,996</u>
LIABILITIES AND FUND BALANCES				
Current Liabilities:				
Payables:				
Accounts	6,664	5,661	12,325	7,908
Securities lending	102,367	66,667	169,034	134,534
Due to primary government	449	292	741	611
Total liabilities	<u>109,480</u>	<u>72,620</u>	<u>182,100</u>	<u>143,053</u>
Net Assets				
Restricted for pension benefits	1,345,545	874,658	2,220,203	1,816,943
Total net assets	<u>\$ 1,345,545</u>	<u>\$ 874,658</u>	<u>\$ 2,220,203</u>	<u>\$ 1,816,943</u>

See Accompanying Independent Auditors' Report.

Exhibit C-2

PENSION TRUST FUNDS

COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

Year Ended September 30, 2003
 (With Comparative Totals at September 30, 2002)
 (\$000s)

	Police and Fire	Teachers	Total	
			2003	2002
Additions:				
Benefit contributions:				
Employer	\$ 68,900	\$ -	\$ 68,900	\$ 74,600
Employees	19,867	26,047	45,914	44,764
Investment income:				
Interest and dividends	33,247	22,074	55,321	59,468
Net appreciation in fair value of investments	151,584	101,914	253,498	(216,361)
Less - investment expenses	(4,041)	(2,662)	(6,703)	(8,647)
Total additions	<u>269,557</u>	<u>147,373</u>	<u>416,930</u>	<u>(46,176)</u>
Deductions:				
Administrative expenses	1,501	978	2,479	2,434
Benefit payments	6,091	5,100	11,191	7,022
Total deductions	<u>7,592</u>	<u>6,078</u>	<u>13,670</u>	<u>9,456</u>
Change in net assets	<u>261,965</u>	<u>141,295</u>	<u>403,260</u>	<u>(55,632)</u>
Net assets held in trust for pension benefits:				
October 1	<u>1,083,580</u>	<u>733,363</u>	<u>1,816,943</u>	<u>1,872,575</u>
September 30	<u>\$ 1,345,545</u>	<u>874,658</u>	<u>2,220,203</u>	<u>1,816,943</u>

See Accompanying Independent Auditors' Report.

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SUPPORTING SCHEDULES

Supporting schedules are financial presentations used to aggregate and present in greater detail information contained in the financial statements and to present additional information not disclosed in the basic financial statements.

Exhibit D-1

FINANCIAL REPORTING ENTITY
SCHEDULE OF BUDGETARY BASIS EXPENDITURES

Year Ended September 30, 2003
(\$000s)

	Budget			
	Original	Revised	Actual	Variance
Governmental direction and support:				
City Council	\$ 12,804	12,812	11,397	1,415
DC Auditor	1,596	1,595	1,429	166
Advisory neighborhood commissions	894	894	843	51
Mayor	7,128	8,841	8,213	628
Executive secretary	2,418	2,831	2,570	261
Citywide call center	2,238	2,230	2,207	23
City administrator	28,376	55,931	31,404	24,527
Personnel	9,958	9,229	8,448	781
Human resource development	3,283	3,238	2,882	356
Finance and resource management	1,845	2,510	2,359	151
Contracts and procurement	12,389	12,501	12,487	14
Chief technology officer	13,921	58,085	51,402	6,683
Property management	8,889	25,741	22,499	3,242
Contract appeals	746	747	568	179
Elections and ethics	3,585	3,722	3,596	126
Campaign finance	1,360	1,328	1,245	83
Public employee relations	649	647	624	23
Employee appeals	1,475	1,467	1,439	28
Council of governments	397	397	397	-
Corporation counsel	49,763	50,843	45,882	4,961
Emergency procurement	-	3,000	3,000	-
Inspector general	11,461	11,140	10,887	253
Chief financial officer	87,698	83,377	81,250	2,127
Total governmental direction and support	262,873	353,106	307,028	46,078
Economic development and regulation:				
Business services and economic development	30,665	42,555	21,985	20,570
Office of planning	7,159	7,736	6,964	772
Local business development	1,093	1,061	959	102
Motion picture and television development	574	553	443	110
Office of zoning	2,524	2,548	2,372	176
Housing and community development	59,712	110,330	52,765	57,565
Alcoholic beverage regulation administration	3,016	4,070	2,712	1,358
Employment services	87,601	98,400	78,398	20,002
Appeals and review	277	274	260	14
Real property assessment and appeals	308	307	281	26
Consumer and regulatory affairs	28,061	30,325	29,953	372
Office of banks and financial institutions	2,437	3,184	2,146	1,038
Public services commission	6,796	6,836	6,572	264
Office of people's counsel	3,978	3,978	3,779	199
Insurance regulation	9,766	9,766	9,349	417
Office of cable TV	3,173	7,420	5,355	2,065
Total economic development and regulation	247,140	329,343	224,293	105,050
Public safety and justice:				
Police	316,688	370,720	355,284	15,436
Fire and emergency medical services	123,036	149,600	145,868	3,732
Police and firefighter retirement contribution	68,900	68,900	68,900	-
Corrections	98,503	105,528	101,269	4,259
National guard	2,816	3,382	2,548	834
Emergency preparedness	4,018	16,836	14,721	2,115
Judicial disabilities and tenure	190	189	181	8
Judicial nomination	110	113	113	-
Citizen complaint review board	1,481	1,421	1,324	97
Advisory commission on sentencing	633	631	483	148
Office of the chief medical examiner	6,014	7,006	6,420	586
Office of administrative hearings	300	231	93	138
Corrections information council	170	166	47	119
Criminal justice coordinating council	467	466	340	126
Total public safety and justice	623,326	725,189	697,591	27,598
Public education system:				
Public schools	875,917	888,696	838,187	50,509
State education office	53,551	64,552	57,861	6,691
Public charter schools	129,685	87,273	83,858	3,415
FY04 public charter school expenditure	-	34,399	34,399	-
University	49,462	49,978	49,978	-
FY04 university expenditure	-	566	566	-
Public library	27,363	27,418	26,641	777
Arts and humanities	2,292	3,508	2,501	1,007
Total public education system	1,138,270	1,156,390	1,093,991	62,399

(Continued)

Exhibit D-1

FINANCIAL REPORTING ENTITY
SCHEDULE OF BUDGETARY BASIS EXPENDITURES
Year Ended September 30, 2003
(\$000s)

	Budget			
	Original	Revised	Actual	Variance
Human support services:				
Human development	\$ 435,046	412,960	410,279	2,681
Child and family services	195,631	208,652	207,222	1,430
Dept of mental health	217,547	226,063	181,443	44,620
Write-off mental health receivable	-	-	99,075	(99,075)
Health	1,441,294	1,465,133	1,373,440	91,693
Recreation and parks	33,465	34,506	32,986	1,520
Aging	20,507	20,883	20,146	737
Unemployment compensation contribution	6,199	9,366	8,967	399
Employee disability compensation	27,959	29,991	29,991	-
Human rights	1,937	2,030	1,796	234
Children investment trust	2,268	7,568	7,568	-
Latino affairs	3,221	3,090	2,962	128
Energy	5,924	16,089	10,060	6,029
Asian and pacific islander affairs	213	213	203	10
Veterans' affairs	240	240	234	6
Medical reserve	87,367	74,138	74,138	-
Incentives for adoption of children	-	3,020	1,539	1,481
Total human support services	2,478,818	2,513,942	2,462,049	51,893
Public works:				
Public works	90,700	94,156	89,402	4,754
Department of transportation	30,235	52,819	35,997	16,822
Department of motor vehicles	39,169	41,610	35,320	6,290
Taxicab commission	1,526	2,039	1,087	952
Washington metropolitan area transit commission	90	90	90	-
Washington metropolitan area transit authority	154,531	154,531	154,531	-
School transit subsidy	3,100	3,804	3,803	1
Total public works	319,351	349,049	320,230	28,819
Other:				
Reserve	70,000	-	-	-
Repayment of bonds and interest	257,951	252,523	250,649	1,874
Repayment of general fund deficit bonds	39,300	39,300	39,043	257
Interest on short term borrowing	1,000	3,292	3,288	4
Certificates of participation	7,950	5,658	2,280	3,378
Settlements and judgments	22,822	23,716	23,716	-
Emergency planning and security costs	14,903	10,624	10,624	-
Wilson Building	4,194	3,894	3,875	19
Workforce investment	48,186	2,699	-	2,699
Non-departmental agency	5,799	-	-	-
Water and sewer authority	253,743	253,743	249,304	4,439
Washington aqueduct	57,847	57,847	-	57,847
Lottery and games	232,881	244,381	166,185	78,196
Storm water	3,100	3,100	1,439	1,661
Sports commission	20,477	20,477	12,340	8,137
Retirement board administration	13,388	13,388	7,446	5,942
Washington convention center operations	78,700	78,700	65,217	13,483
Housing finance agency	5,797	5,797	-	5,797
National capital revitalization corporation	6,745	6,745	-	6,745
Total other	1,144,783	1,025,884	835,406	190,478
Total budget	\$ 6,214,561	6,452,903	5,940,588	512,315

See Accompanying Independent Auditors' Report.

Exhibit D-2

FINANCIAL REPORTING ENTITY

SCHEDULE OF BUDGETARY BASIS OPERATIONS BY SOURCE OF FUNDS

Year Ended September 30, 2003
(\$000s)

	Local Source				Federal Source			
	Original Budget	Revised Budget	Actual	Variance	Original Budget	Revised Budget	Actual	Variance
Governmental direction and support:								
City Council	\$ 12,804	12,812	11,397	1,415	-	-	-	-
DC Auditor	1,596	1,595	1,429	166	-	-	-	-
Advisory neighborhood commissions	894	894	843	51	-	-	-	-
Mayor	6,279	6,051	5,831	220	849	2,450	2,081	369
Executive secretary	2,325	2,318	2,168	150	-	5	5	-
Citywide call center	2,238	2,230	2,207	23	-	-	-	-
City administrator	10,234	8,428	7,884	544	18,142	47,503	23,520	23,983
Personnel	9,146	8,792	8,230	562	-	-	-	-
Human resource development	3,283	3,238	2,882	356	-	-	-	-
Finance and resource management	1,845	1,845	1,845	-	-	-	-	-
Contracts and procurement	12,389	11,754	11,753	1	-	747	734	13
Chief technology officer	13,907	13,451	13,435	16	-	44,620	37,967	6,653
Property management	7,195	6,516	6,137	379	-	17,531	15,118	2,413
Contract appeals	746	747	568	179	-	-	-	-
Elections and ethics	3,585	3,570	3,444	126	-	152	152	-
Campaign finance	1,360	1,328	1,245	83	-	-	-	-
Public employee relations	649	647	624	23	-	-	-	-
Employee appeals	1,475	1,467	1,439	28	-	-	-	-
Council of governments	397	397	397	-	-	-	-	-
Corporation counsel	28,555	28,583	28,360	223	15,366	15,649	14,938	711
Emergency procurement	-	3,000	3,000	-	-	-	-	-
Inspector general	10,196	9,896	9,872	24	1,265	1,244	1,015	229
Chief financial officer	76,873	74,111	74,099	12	932	1,429	1,329	100
Total governmental direction and support	207,971	203,670	199,089	4,581	36,554	131,330	96,859	34,471
Economic development and regulation:								
Business services and economic development	4,749	3,728	3,546	182	-	329	(31)	360
Office of planning	6,603	6,361	6,116	245	556	862	500	362
Local business development	1,093	1,061	959	102	-	-	-	-
Motion picture and television development	574	553	443	110	-	-	-	-
Office of zoning	2,524	2,478	2,302	176	-	70	70	-
Housing and community development	5,400	5,842	5,787	55	44,950	73,565	42,583	30,982
Alcoholic beverage regulation administration	-	-	-	-	-	1,054	107	947
Employment services	10,739	13,165	12,795	370	54,947	54,420	44,774	9,646
Appeals and review	277	274	260	14	-	-	-	-
Real property assessment and appeals	308	307	281	26	-	-	-	-
Consumer and regulatory affairs	24,605	24,213	24,031	182	-	400	248	152
Office of banks and financial institutions	-	-	-	-	-	147	147	-
Public services commission	-	-	-	-	125	165	120	45
Office of people's counsel	-	-	-	-	-	-	-	-
Insurance regulation	-	-	-	-	-	-	-	-
Office of cable TV	-	-	-	-	-	-	-	-
Total economic development and regulation	56,872	57,982	56,520	1,462	100,578	131,012	88,518	42,494
Public safety and justice:								
Police	299,133	331,122	327,688	3,434	10,102	20,960	14,849	6,111
Fire and emergency medical services	123,027	138,805	135,693	3,112	-	10,754	10,143	611
Police and firefighter retirement contribution	68,900	68,900	68,900	-	-	-	-	-
Corrections	97,553	103,184	102,336	848	-	344	(1,067)	1,411
National guard	2,310	2,230	1,396	834	506	1,152	1,152	-
Emergency preparedness	2,800	3,323	3,210	113	1,218	13,513	11,511	2,002
Judicial disabilities and tenure	190	189	181	8	-	-	-	-
Judicial nomination	110	113	113	-	-	-	-	-
Citizen complaint review board	1,481	1,421	1,324	97	-	-	-	-
Advisory commission on sentencing	633	631	483	148	-	-	-	-
Office of the chief medical examiner	5,902	5,458	5,107	351	-	1,436	1,313	123
Office of administrative hearings	300	231	93	138	-	-	-	-
Corrections information council	170	166	47	119	-	-	-	-
Criminal justice coordinating council	169	168	161	7	298	298	179	119
Total public safety and justice	602,678	655,941	646,732	9,209	12,124	48,457	38,080	10,377

(Continued)

Exhibit D-2

FINANCIAL REPORTING ENTITY

SCHEDULE OF BUDGETARY BASIS OPERATIONS BY SOURCE OF FUNDS

Year Ended September 30, 2003
(\$000s)

	Private Grants				Other Source			
	Original Budget	Revised Budget	Actual	Variance	Original Budget	Revised Budget	Actual	Variance
Governmental direction and support:								
City Council	-	-	-	-	-	-	-	-
DC Auditor	-	-	-	-	-	-	-	-
Advisory neighborhood commissions	-	-	-	-	-	-	-	-
Mayor	-	340	301	39	-	-	-	-
Executive secretary	-	7	4	3	93	501	393	108
Citywide call center	-	-	-	-	-	-	-	-
City administrator	-	-	-	-	-	-	-	-
Personnel	-	-	-	-	812	437	218	219
Human resource development	-	-	-	-	-	-	-	-
Finance and resource management	-	-	-	-	-	665	514	151
Contracts and procurement	-	-	-	-	-	-	-	-
Chief technology officer	-	-	-	-	14	14	-	14
Property management	-	-	-	-	1,694	1,694	1,244	450
Contract appeals	-	-	-	-	-	-	-	-
Elections and ethics	-	-	-	-	-	-	-	-
Campaign finance	-	-	-	-	-	-	-	-
Public employee relations	-	-	-	-	-	-	-	-
Employee appeals	-	-	-	-	-	-	-	-
Council of governments	-	-	-	-	-	-	-	-
Corporation counsel	-	-	-	-	5,842	6,611	2,584	4,027
Emergency procurement	-	-	-	-	-	-	-	-
Inspector general	-	-	-	-	-	-	-	-
Chief financial officer	-	-	-	-	9,893	7,837	5,822	2,015
Total governmental direction and support	-	347	305	42	18,348	17,759	10,775	6,984
Economic development and regulation:								
Business services and economic development	-	-	-	-	25,916	38,498	18,470	20,028
Office of planning	-	513	348	165	-	-	-	-
Local business development	-	-	-	-	-	-	-	-
Motion picture and television development	-	-	-	-	-	-	-	-
Office of zoning	-	-	-	-	-	-	-	-
Housing and community development	-	-	-	-	9,362	30,923	4,395	26,528
Alcoholic beverage regulation administration	-	-	-	-	3,016	3,016	2,605	411
Employment services	109	109	76	33	21,806	30,706	20,753	9,953
Appeals and review	-	-	-	-	-	-	-	-
Real property assessment and appeals	-	-	-	-	-	-	-	-
Consumer and regulatory affairs	-	2	-	2	3,456	5,710	5,674	36
Office of banks and financial institutions	-	100	18	82	2,437	2,937	1,981	956
Public services commission	125	125	99	26	6,546	6,546	6,353	193
Office of people's counsel	-	-	-	-	3,978	3,978	3,779	199
Insurance regulation	-	-	-	-	9,766	9,766	9,349	417
Office of cable TV	-	-	-	-	3,173	7,420	5,355	2,065
Total economic development and regulation	234	849	541	308	89,456	139,500	78,714	60,786
Public safety and justice:								
Police	-	-	-	-	7,453	18,638	12,747	5,891
Fire and emergency medical services	-	32	32	-	9	9	-	9
Police and firefighter retirement contribution	-	-	-	-	-	-	-	-
Corrections	-	-	-	-	950	2,000	-	2,000
National guard	-	-	-	-	-	-	-	-
Emergency preparedness	-	-	-	-	-	-	-	-
Judicial disabilities and tenure	-	-	-	-	-	-	-	-
Judicial nomination	-	-	-	-	-	-	-	-
Citizen complaint review board	-	-	-	-	-	-	-	-
Advisory commission on sentencing	-	-	-	-	-	-	-	-
Office of the chief medical examiner	-	-	-	-	112	112	-	112
Office of administrative hearings	-	-	-	-	-	-	-	-
Corrections information council	-	-	-	-	-	-	-	-
Criminal justice coordinating council	-	-	-	-	-	-	-	-
Total public safety and justice	-	32	32	-	8,524	20,759	12,747	8,012

(Continued)

Exhibit D-2

FINANCIAL REPORTING ENTITY
SCHEDULE OF BUDGETARY BASIS OPERATIONS BY SOURCE OF FUNDS
Year Ended September 30, 2003
(\$000s)

	Local Source				Federal Source			
	Original Budget	Revised Budget	Actual	Variance	Original Budget	Revised Budget	Actual	Variance
Public education system:								
Public schools	713,494	711,937	711,890	47	150,781	163,079	116,438	46,641
State education office	5,594	5,326	5,247	79	47,781	59,050	52,468	6,582
Public charter schools	125,711	83,299	79,884	3,415	3,974	3,974	3,974	-
FY04 public charter school expenditure	-	34,399	34,399	-	-	-	-	-
University	49,462	49,978	49,978	-	-	-	-	-
FY04 university expenditure	-	566	566	-	-	-	-	-
Public library	26,216	26,022	25,699	323	610	768	623	145
Arts and humanities	1,697	1,691	1,691	-	475	497	483	14
Total public education system	922,174	913,218	909,354	3,864	203,621	227,368	173,986	53,382
Human support services:								
Human development	\$ 201,693	218,885	218,885	-	231,567	192,142	189,564	2,578
Child and family services	113,177	140,536	140,432	104	81,804	66,904	65,626	1,278
Dept of mental health	131,118	138,142	138,142	-	67,100	69,484	40,044	29,440
Write-off mental health receivable	-	-	99,075	(99,075)	-	-	-	-
Health	430,577	481,008	479,853	1,155	982,543	959,202	877,785	81,417
Recreation and parks	31,110	31,383	31,090	293	-	768	142	626
Aging	14,747	14,746	14,040	706	5,760	6,137	6,106	31
Unemployment compensation contribution	6,199	9,366	8,967	399	-	-	-	-
Employee disability compensation	27,959	29,991	29,991	-	-	-	-	-
Human rights	1,831	1,809	1,592	217	106	221	204	17
Children investment trust	2,268	2,868	2,868	-	-	4,700	4,700	-
Latino affairs	3,221	3,090	2,962	128	-	-	-	-
Energy	431	439	416	23	4,801	7,402	7,202	200
Asian and pacific islander affairs	213	213	203	10	-	-	-	-
Veterans' affairs	240	240	234	6	-	-	-	-
Medical reserve	87,367	74,138	74,138	-	-	-	-	-
Incentive for adoption of children	-	-	-	-	-	3,020	1,539	1,481
Total human support services	1,052,151	1,146,854	1,242,888	(96,034)	1,373,681	1,309,980	1,192,912	117,068
Public works:								
Public works	88,458	82,141	82,134	7	-	1,920	1,266	654
Department of transportation	23,912	22,890	22,890	-	5,663	27,916	12,296	15,620
Department of motor vehicles	32,463	30,417	29,789	628	-	-	-	-
Taxicab commission	809	810	715	95	-	-	-	-
Washington metropolitan area transit commission	90	90	90	-	-	-	-	-
Washington metropolitan area transit authority	154,531	154,531	154,531	-	-	-	-	-
School transit subsidy	3,100	3,804	3,803	1	-	-	-	-
Total public works	303,363	294,683	293,952	731	5,663	29,836	13,562	16,274
Other:								
Reserve	70,000	-	-	-	-	-	-	-
Repayment of bonds and interest	257,951	252,523	250,649	1,874	-	-	-	-
Repayment of general fund deficit bonds	39,300	39,300	39,043	257	-	-	-	-
Interest on short term borrowing	1,000	3,292	3,288	4	-	-	-	-
Certificates of participation	7,950	5,658	2,280	3,378	-	-	-	-
Settlements and judgments	22,822	23,356	23,356	-	-	360	360	-
Emergency planning and security costs	-	-	-	-	14,903	10,624	10,624	-
Wilson Building	4,194	3,894	3,875	19	-	-	-	-
Non-departmental agency	5,799	-	-	-	-	-	-	-
Water and sewer authority	-	-	-	-	-	-	-	-
Washington aqueduct	-	-	-	-	-	-	-	-
Lottery and games	-	-	-	-	-	-	-	-
Storm water	-	-	-	-	-	-	-	-
Sports commission	-	-	-	-	-	-	-	-
Retirement board administration	-	-	-	-	-	-	-	-
Washington convention center operations	-	-	-	-	-	-	-	-
Workforce investment	48,186	2,699	-	2,699	-	-	-	-
Housing finance agency	-	-	-	-	-	-	-	-
National capital revitalization corporation	-	-	-	-	-	-	-	-
Total other	457,202	330,722	322,491	8,231	14,903	10,984	10,984	-
Total budget	\$ 3,602,411	3,603,070	3,671,026	(67,956)	1,747,124	1,888,967	1,614,901	274,066

See Accompanying Independent Auditors' Report.

(Continued)

Exhibit D-2

FINANCIAL REPORTING ENTITY
SCHEDULE OF BUDGETARY BASIS OPERATIONS BY SOURCE OF FUNDS
Year Ended September 30, 2003
(\$000s)

	Private Grants				Other Source			
	Original Budget	Revised Budget	Actual	Variance	Original Budget	Revised Budget	Actual	Variance
Public education system:								
Public schools	5,310	5,705	3,229	2,476	6,332	7,975	6,630	1,345
State education office	-	-	-	-	176	176	146	30
Public charter schools	-	-	-	-	-	-	-	-
FY04 public charter school expenditure	-	-	-	-	-	-	-	-
University	-	-	-	-	-	-	-	-
FY04 university expenditure	-	-	-	-	-	-	-	-
Public library	-	56	51	5	537	572	268	304
Arts and humanities	-	-	-	-	120	1,320	327	993
Total public education system	5,310	5,761	3,280	2,481	7,165	10,043	7,371	2,672
Human support services:								
Human development	-	-	-	-	1,786	1,933	1,830	103
Child and family services	-	382	334	48	650	830	830	-
Dept of mental health	19,329	18,437	3,257	15,180	-	-	-	-
Write-off mental health receivable	-	-	-	-	-	-	-	-
Health	1,850	2,783	2,106	677	26,324	22,140	13,696	8,444
Recreation and parks	762	762	740	22	1,593	1,593	1,014	579
Aging	-	-	-	-	-	-	-	-
Unemployment compensation contribution	-	-	-	-	-	-	-	-
Employee disability compensation	-	-	-	-	-	-	-	-
Human rights	-	-	-	-	-	-	-	-
Children investment trust	-	-	-	-	-	-	-	-
Latino affairs	-	-	-	-	-	-	-	-
Energy	-	-	(11)	11	692	8,248	2,453	5,795
Asian and pacific islander affairs	-	-	-	-	-	-	-	-
Veterans' affairs	-	-	-	-	-	-	-	-
Medical reserve	-	-	-	-	-	-	-	-
Incentive for adoption of children	-	-	-	-	-	-	-	-
Total human support services	21,941	22,364	6,426	15,938	31,045	34,744	19,823	14,921
Public works:								
Public works	-	-	-	-	2,242	10,095	6,002	4,093
Department of transportation	-	-	-	-	660	2,013	811	1,202
Department of motor vehicles	-	-	-	-	6,706	11,193	5,531	5,662
Taxicab commission	-	-	-	-	717	1,229	372	857
Washington metropolitan area transit commission	-	-	-	-	-	-	-	-
Washington metropolitan area transit authority	-	-	-	-	-	-	-	-
School transit subsidy	-	-	-	-	-	-	-	-
Total public works	-	-	-	-	10,325	24,530	12,716	11,814
Other:								
Reserve	-	-	-	-	-	-	-	-
Repayment of bonds and interest	-	-	-	-	-	-	-	-
Repayment of general fund deficit bonds	-	-	-	-	-	-	-	-
Interest on short term borrowing	-	-	-	-	-	-	-	-
Certificates of participation	-	-	-	-	-	-	-	-
Settlements and judgments	-	-	-	-	-	-	-	-
Emergency planning and security costs	-	-	-	-	-	-	-	-
Wilson Building	-	-	-	-	-	-	-	-
Non-departmental agency	-	-	-	-	-	-	-	-
Water and sewer authority	-	-	-	-	253,743	253,743	249,304	4,439
Washington aqueduct	-	-	-	-	57,847	57,847	-	57,847
Lottery and games	-	-	-	-	232,881	244,381	166,185	78,196
Storm water	-	-	-	-	3,100	3,100	1,439	1,661
Sports commission	-	-	-	-	20,477	20,477	12,340	8,137
Retirement board administration	-	-	-	-	13,388	13,388	7,446	5,942
Washington convention center operations	-	-	-	-	78,700	78,700	65,217	13,483
Workforce investment	-	-	-	-	-	-	-	-
Housing finance agency	-	-	-	-	5,797	5,797	-	5,797
National capital revitalization corporation	-	-	-	-	6,745	6,745	-	6,745
Total other	-	-	-	-	672,678	684,178	501,931	182,247
Total budget	27,485	29,353	10,584	18,769	837,541	931,513	644,077	287,436

Exhibit D-3

FINANCIAL REPORTING ENTITY
SCHEDULE OF BUDGET REVISIONS
Year Ended September 30, 2003
(\$000s)

	Local Source			Federal Resources		
	Original Budget	Repro-gramming	Revised Budget	Original Budget	Repro-gramming	Revised Budget
Revenues and Sources:						
Taxes:						
Property taxes	\$ 856,811	40,261	897,072	-	-	-
Sales and use taxes	703,194	5,453	708,647	-	-	-
Income taxes	1,158,393	(33,230)	1,125,163	-	-	-
Other taxes	509,429	(53,802)	455,627	-	-	-
Total taxes	3,227,827	(41,318)	3,186,509	-	-	-
Licenses and permits	61,724	148	61,872	-	-	-
Fines and forfeits	102,300	1,862	104,162	-	-	-
Charges for services	49,309	(28)	49,281	-	-	-
Miscellaneous	80,797	(10,822)	69,975	-	-	-
Private & Other	-	-	-	-	-	-
Federal grants	-	-	-	1,699,831	(25,630)	1,674,201
Federal payments	-	-	-	47,293	167,473	214,766
Transfer in from lottery board	70,900	(2,300)	68,600	-	-	-
Total revenues and sources	3,592,857	(52,458)	3,540,399	1,747,124	141,843	1,888,967
Expenditures and Uses:						
Governmental direction and support	207,971	(4,301)	203,670	36,554	94,776	131,330
Economic development and regulation	56,872	1,110	57,982	100,578	30,434	131,012
Public safety and justice	602,678	53,263	655,941	12,124	36,333	48,457
Public education system	922,174	(43,355)	878,819	203,621	23,747	227,368
Public school FY04 expenditure	-	34,399	34,399	-	-	-
Human support services	1,052,151	94,703	1,146,854	1,373,681	(63,701)	1,309,980
Public works	303,363	(8,680)	294,683	5,663	24,173	29,836
Workforce investments	48,186	(45,487)	2,699	-	-	-
Wilson building	4,194	(300)	3,894	-	-	-
Reserve	70,000	(70,000)	-	-	-	-
Repayment of bonds and interest	257,951	(5,428)	252,523	-	-	-
Repayment of general fund deficit bonds	39,300	-	39,300	-	-	-
Interest on short term borrowing	1,000	2,292	3,292	-	-	-
Certificates of participation	7,950	(2,292)	5,658	-	-	-
Non departmental	5,799	(5,799)	-	-	-	-
Emergency planning and security costs	-	-	-	14,903	(4,279)	10,624
Water and sewer authority	-	-	-	-	-	-
Washington aqueduct	-	-	-	-	-	-
Lottery and games	-	-	-	-	-	-
Sports commission	-	-	-	-	-	-
Storm water	-	-	-	-	-	-
Retirement board administration	-	-	-	-	-	-
Washington convention center operations	-	-	-	-	-	-
Housing finance agency	-	-	-	-	-	-
Settlements and judgments	22,822	534	23,356	-	360	360
National capital revitalization corporation	-	-	-	-	-	-
Total expenditures and uses	3,602,411	659	3,603,070	1,747,124	141,843	1,888,967
Excess (Deficiency) of Revenues and Sources Over (Under) Expenditures and Uses	\$ (9,554)	(53,117)	(62,671)	-	-	-

See Accompanying Independent Auditors' Report.

(Continued)

Exhibit D-3

FINANCIAL REPORTING ENTITY
SCHEDULE OF BUDGET REVISIONS

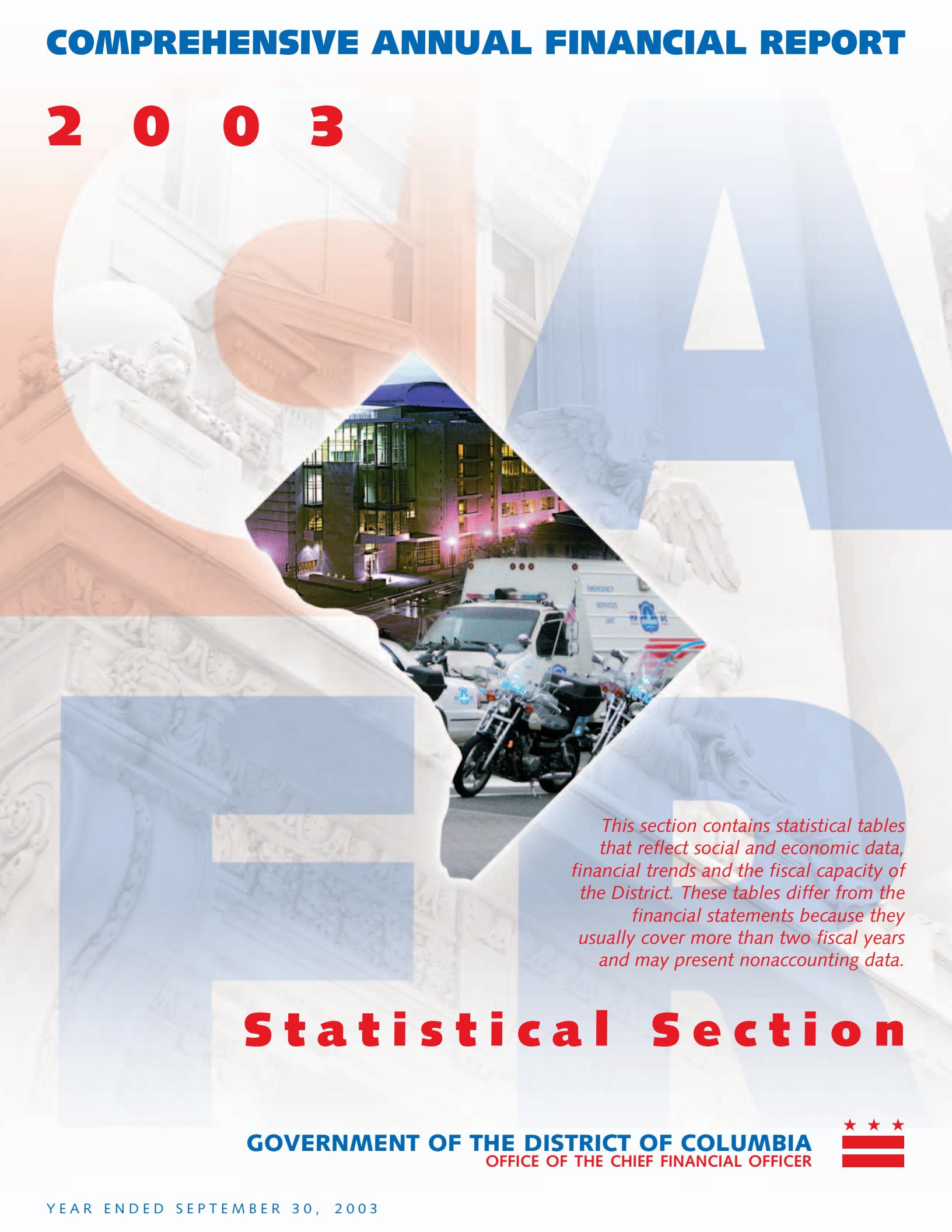
Year Ended September 30, 2003
(\$000s)

	Private and Other			Total		
	Original Budget	Repro-gramming	Revised Budget	Original Budget	Repro-gramming	Revised Budget
Revenues and Sources:						
Taxes:						
Property taxes	\$ -	-	-	856,811	40,261	897,072
Sales and use taxes	-	-	-	703,194	5,453	708,647
Income taxes	-	-	-	1,158,393	(33,230)	1,125,163
Other taxes	-	-	-	509,429	(53,802)	455,627
Total taxes	-	-	-	3,227,827	(41,318)	3,186,509
Licenses and permits	-	-	-	61,724	148	61,872
Fines and forfeits	-	-	-	102,300	1,862	104,162
Charges for services	-	-	-	49,309	(28)	49,281
Miscellaneous	-	-	-	80,797	(10,822)	69,975
Private & Other	865,026	95,840	960,866	865,026	95,840	960,866
Operating grants	-	-	-	1,699,831	(25,630)	1,674,201
Transfer of interest income	-	-	-	47,293	167,473	214,766
Transfer in from lottery board	-	-	-	70,900	(2,300)	68,600
Total revenues and sources	865,026	95,840	960,866	6,205,007	185,225	6,390,232
Expenditures and Uses:						
Governmental direction and support	18,348	(242)	18,106	262,873	90,233	353,106
Economic development and regulation	89,690	50,659	140,349	247,140	82,203	329,343
Public safety and justice	8,524	12,267	20,791	623,326	101,863	725,189
Public education system	12,475	3,329	15,804	1,138,270	(16,279)	1,121,837
Public school FY04 expenditure	-	-	-	-	34,399	34,399
Human support services	52,986	4,122	57,108	2,478,818	35,124	2,513,942
Public works	10,325	14,205	24,530	319,351	29,698	349,049
Workforce investments	-	-	-	48,186	(45,487)	2,699
Wilson building	-	-	-	4,194	(300)	3,894
Reserve	-	-	-	70,000	(70,000)	-
Repayment of bonds and interest	-	-	-	257,951	(5,428)	252,523
Repayment of general fund deficit bonds	-	-	-	39,300	-	39,300
Interest on short term borrowing	-	-	-	1,000	2,292	3,292
Certificates of participation	-	-	-	7,950	(2,292)	5,658
Non departmental	-	-	-	5,799	(5,799)	-
Emergency planning and security costs	-	-	-	14,903	(4,279)	10,624
Water and sewer authority	253,743	-	253,743	253,743	-	253,743
Washington aqueduct	57,847	-	57,847	57,847	-	57,847
Lottery and games	232,881	11,500	244,381	232,881	11,500	244,381
Sports commission	20,477	-	20,477	20,477	-	20,477
Storm water	3,100	-	3,100	3,100	-	3,100
Retirement board administration	13,388	-	13,388	13,388	-	13,388
Washington convention center operations	78,700	-	78,700	78,700	-	78,700
Housing finance agency	5,797	-	5,797	5,797	-	5,797
Settlements and judgments	-	-	-	22,822	894	23,716
National capital revitalization corporation	6,745	-	6,745	6,745	-	6,745
Total expenditures and uses	865,026	95,840	960,866	6,214,561	238,342	6,452,749
Excess (Deficiency) of Revenues and Sources Over (Under) Expenditures and Uses	\$ -	-	-	(9,554)	(53,117)	(62,517)

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COMPREHENSIVE ANNUAL FINANCIAL REPORT

2 0 0 3



This section contains statistical tables that reflect social and economic data, financial trends and the fiscal capacity of the District. These tables differ from the financial statements because they usually cover more than two fiscal years and may present nonaccounting data.

Statistical Section

GOVERNMENT OF THE DISTRICT OF COLUMBIA
OFFICE OF THE CHIEF FINANCIAL OFFICER



Exhibit S-1

GOVERNMENT-WIDE REVENUES BY SOURCE

Last Two Fiscal Years
(\$000s)

PROGRAM REVENUES				GENERAL REVENUES			
Fiscal Year	Charges For Services	Operating Grants & Contributions	Capital Grants & Contributions	Taxes	Investment Earnings	Transfers In	Miscellaneous
2002	286,044	1,890,544	161,450	3,234,484	19,283	63,000	333,943
2003	323,161	1,833,060	176,449	3,381,871	13,341	37,574	330,028

Source: Office of Financial Operations and Systems

Note: As a result of GASB 34 implementation, only two fiscal years are present.

Exhibit S-2

GOVERNMENT-WIDE EXPENSES BY FUNCTION

Last Two Fiscal Years
(\$000s)

Fiscal Year	Government Direction & Support	Economic Development & Regulation	Public Safety & Justice	Public Education System	Human Support Service	Public Works	Public Transportation	Interest on Long Term Debt	Fiscal Charges	Special Item
2002	451,863	323,804	920,599	1,153,719	2,267,597	279,506	184,883	175,241	19,746	(171,094)
2003	504,513	252,716	936,797	1,168,545	2,572,881	312,704	272,726	178,301	20,559	-

Source: Office of Financial Operations and Systems

Note: As a result of GASB 34 implementation, only two fiscal years are present.

Exhibit S-3

GENERAL FUND REVENUES BY SOURCE

Last Ten Fiscal Years
(\$000s)

Fiscal Year	Taxes	Licenses & Permits	Fines & Forfeits	Charges For Services	Miscellaneous	Total District Sources
1994	2,470,053	49,098	48,107	137,361	127,628	2,832,247
1995	2,391,041	47,583	42,447	120,033	128,008	2,729,112
1996	2,517,044	49,400	40,792	108,321	116,080	2,831,637
1997	2,577,344	45,490	51,664	87,384	142,648	2,904,530
1998	2,815,900	48,123	53,177	80,128	180,604	3,177,932
1999	2,892,562	48,247	47,794	276,680	171,590	3,436,873
2000	3,127,849	44,446	54,865	174,438	214,518	3,616,116
2001	3,316,379	42,829	58,223	182,473	253,706	3,853,610
2002 *	3,229,809	52,003	88,495	106,242	190,055	3,666,604
2003	<u>3,384,093</u>	<u>62,189</u>	<u>90,238</u>	<u>128,631</u>	<u>206,440</u>	<u>3,871,591</u>

* In FY2002, the District elected to exclude 'Federal Payments' from the General Fund, and reported them in the Federal & Private Resources Fund. As a result, FY2002's balance is not comparable to prior years'.

Source: Office of Tax and Revenue
District of Columbia

Exhibit S-4

GENERAL FUND EXPENDITURES AND NET USES BY FUNCTION

Last Ten Fiscal Years
(\$000s)

Fiscal Year	Govern-mental Direction	Economic Development	Public Safety	Public Education	Human Services	Public Works	Receivingships	Future Employee Benefits	Joint Venture Subsidy (1)	Debt Service	Net Financing Uses	Total (Exhibit A-2)
1994	129,601	286,722	1,106,556	796,138	1,874,348	276,964	-	(73,542)	-	333,413	46,113	4,776,313
1995	131,001	258,514	1,069,910	759,973	1,442,251	253,482	-	75,688	-	344,895	59,674	4,395,388
1996	157,576	150,743	999,298	714,653	1,734,947	278,161	-	(10,733)	-	367,704	93,924	4,486,273
1997	153,777	154,754	994,554	667,384	1,602,026	259,490	-	39,773	-	395,555	23,084	4,290,397
1998	168,292	181,839	550,876	670,205	1,728,752	262,145	-	(142,224)	-	399,862	144,499	3,964,246
1999	329,788	161,824	759,526	737,781	1,283,979	264,334	397,435	102,097	131,604	390,034	100,830	4,659,232
2000	247,664	180,443	924,843	899,763	1,552,495	135,067	366,961	13,968	135,531	395,112	212,368	5,064,215
2001	275,739	187,565	938,186	1,074,437	1,618,030	136,041	510,562	(20,936)	138,073	257,902	272,096	5,387,695
2002 (2)	339,819	115,695	634,867	929,988	761,121	146,786	319,608	-	148,493	272,182	(29,410)	3,639,149
2003	<u>307,245</u>	<u>135,753</u>	<u>656,934</u>	<u>921,499</u>	<u>1,249,091</u>	<u>151,191</u>	<u>-</u>	<u>-</u>	<u>154,531</u>	<u>291,972</u>	<u>(27,932)</u>	<u>3,840,284</u>

(1) 1999 amounts were restated for Joint Venture Subsidy, Human Support Services, and Debt Service

(2) In FY2002, the District elected to exclude 'Federal Payments' and 'Operating Grants' from the General Fund, and reported them separately in the Federal & Private Resources Fund. As a result, FY2002's balance is not comparable to prior years' balances

Source: Office of Financial Operations and Systems

Exhibit S-5

GENERAL FUND TAX REVENUES BY SOURCE

Last Ten Fiscal Years
(\$000s)

Fiscal Year	Property			Sales and Use		Income and Franchise		Gross Receipts	Other Taxes	Total (Exhibit S-3)
	Real	Personal (1)	Rental (1)	General	Selective	Individual	Business			
1994	730,641	62,437	17,931	458,555	98,919	650,660	150,208	243,199	57,503	2,470,053
1995	654,284	61,305	14,754	485,651	98,456	643,676	160,679	210,912	61,324	2,391,041
1996	668,749	65,003	12,052	494,427	95,217	689,408	155,623	244,438	92,127	2,517,044
1997	617,694	60,392	9,513	514,635	99,266	753,475	188,093	238,898	95,378	2,577,344
1998	616,935	68,475	10,030	557,081	92,815	861,505	221,597	247,580	139,882	2,815,900
1999	597,566	73,928	8,056	592,718	84,305	952,156	217,595	218,905	147,333	2,892,562
2000	610,896	70,133	11,752	640,212	58,649	1,077,346	261,218	256,033	141,610	3,127,849
2001	633,172	64,144	10,107	657,397	59,922	1,098,188	302,049	300,666	190,734	3,316,379
2002	726,014	65,208	12,167	612,354	56,483	1,031,402	211,249	231,786	283,146	3,229,809
2003	822,845	67,294	11,749	631,465	63,029	1,019,687	238,484	261,348	268,192	3,384,093

(1) The personal property and public space rental tax year is from July 1 to June 30. Taxes are due by July 31. One quarter of the taxes is recognized as revenue in the current fiscal year and three quarters are deferred and recognized as revenue in the following fiscal year.

Source: Office of Tax and Revenue
District of Columbia

Exhibit S-6

GENERAL FUND CURRENT EXPENDITURES BY OBJECT

Last Ten Fiscal Years
(\$000s)

Fiscal Year	Salaries and Wages	Total Benefits	Future Benefits	Contractual Services	Supplies	Occupancy	Miscellaneous		Total	Cumulative Fund Balance (Deficit)
							Assistance	Other		
1994	1,553,733	625,146	(73,542)	408,921	75,797	148,100	1,126,107	532,525	4,396,787	(324,106)
1995	1,450,122	425,490	75,688	380,267	55,134	137,791	1,057,085	409,242	3,990,819	(484,561)
1996	1,385,054	543,752	(10,733)	380,138	71,512	117,997	1,152,238	384,687	4,024,645	(518,249)
1997	1,332,704	471,232	39,773	431,612	57,338	130,632	1,045,642	362,825	3,871,758	(332,357)
1998	1,180,964	381,637	(142,224)	433,108	50,005	123,674	829,410	563,311	3,419,885	112,492
1999	1,296,451	142,784	102,097	620,276	61,133	145,785	959,932	661,008	3,989,466	224,210
2000	1,394,643	426,859	13,968	777,730	145,025	153,403	991,607	553,500	4,456,735	464,937
2001	1,480,848	386,725	(20,936)	625,473	59,928	159,966	1,055,310	972,310	4,719,624	562,245
2002 (1)	1,487,837	77,136	-	537,480	41,719	147,956	162,983	763,364	3,218,475	865,328
2003	1,479,175	163,560	-	579,223	33,749	158,845	1,052,232	90,557	3,557,341	897,357

Note: The 1995 Balance (Deficit) reflects a restatement made in 1997. Other 1995 and prior amounts have not been restated.

(1) In FY2002, the District elected to exclude 'Federal Payments' and 'Operating Grants' from the General Fund, and them reported separately in the Federal & Private Resources Fund. As a result, FY2002's balance is not comparable to prior years'.

Source: Office of Financial Operations and Systems
District of Columbia

Exhibit S-7

REAL PROPERTY TAX LEVIES AND COLLECTIONS

Last Ten Fiscal Years
(\$000s)

Fiscal Year	Tax Levy	Tax Collections (1)			Percent of Collections to Levy		Delinquent Taxes		
		Current	Delinquent	Total	Current	Total	Addition (Deduction)	Out-standing	Percent to Levy
1994	\$ 721,924	657,899	49,589	707,488	91.1 %	98.0 %	(31,796)	64,025	8.9 %
1995	720,331	649,020	43,933	692,953	90.1 %	96.2 %	(39,126)	52,277	7.3 %
1996	700,171	632,181	48,905	681,086	90.3 %	97.3 %	(20,898)	50,464	7.2 %
1997	648,166	606,435	21,002	627,437	93.6 %	96.8 %	(22,923)	48,270	7.4 %
1998	638,569	590,249	30,548	620,797	92.4 %	97.2 %	(28,813)	37,229	5.8 %
1999	637,647	554,064	29,078	583,142	86.9 %	91.5 %	(18,448)	73,286	11.5 %
2000	613,385	569,190	23,587	592,777	92.8 %	96.6 %	(56,017)	37,877	6.2 %
2001	669,016	576,965	58,359	635,324	86.2 %	95.0 %	(27,132)	44,437	6.6 %
2002	740,387	649,895	57,729	707,624	87.8 %	95.6 %	(23,958)	53,242	7.2 %
2003	847,980	774,989	63,110	838,099	91.4 %	98.8 %	(22,027)	41,096	4.8 %

(1) Approximately 60 percent of real property tax collections are deposited with fiscal agents, such as commercial banks, for payments on matured bonds and interest expense.

Source: Office of Tax and Revenue
District of Columbia

Exhibit S-8

MAJOR TAX RATES

Last Ten Fiscal Years
(\$000s)

Fiscal Year	Property (1)						General	Sales and Use		Income and Franchise (5)		Gross Receipt		
	Residential		Commercial		Personal	Unimproved		Selective						
	Owner Occupied	Tenant Occupied	Hotels	Improved				Cigar-ette	Motor Fuel	Individual	Business			
1994	\$ 0.96	1.54	1.85	2.15	5.00	3.40	0.0575	0.65	0.200	.060-.095	0.10250	0.100		
1995	0.96	1.54	1.85	2.15	5.00	3.40	0.0575	0.65	0.200	.060-.095	0.09975	0.100		
1996	0.96	1.54	1.85	2.15	5.00	3.40	0.0575	0.65	0.200	.060-.095	0.09975	0.100		
1997	0.96	1.54	1.85	2.15	5.00	3.40	0.0575	0.65	0.200	.060-.095	0.09975	0.100		
1998	0.96	1.54	1.85	2.15	5.00	3.40	0.0575	0.65	0.200	.060-.095	0.09975	0.100		
1999	0.96	1.54	1.85	2.15	5.00	3.40	0.0575	0.65	0.200	.060-.095	0.09975	0.100		
2000	0.96	1.34	1.85	2.05	2.05	3.40	0.0575	0.65	0.200	.050-.095	0.09975	0.100		
2001	0.96	1.15	1.85	1.95	1.95	3.40	0.0575	0.65	0.200	.050-.093	0.09975	0.100		
2002	0.96	0.96	1.85	1.85	1.85	3.40	0.0575	0.65	0.200	.050-.093	0.09975	0.100		
2003	0.96	0.96	1.85	1.85	5.00	3.40	0.0575	1.00	0.200	.050-.093	0.09975	0.110		

Units: (1) Per \$100 of assessed value. (2) Per \$1 of sales. (3) Per pack. (4) Per gallon. (5) Per \$1 of taxable income.
(6) Per \$1 of gross receipts. First \$50,000 in value excluded from tax base.

Source: Office of the Chief Financial Officer, Office of Research and Analysis
District of Columbia

Exhibit S-9

ASSESSED VALUE, CONSTRUCTION AND BANK DEPOSITS

Last Ten Fiscal Years
(\$000s)

Fiscal Year	Assessed Value of Property (1)				Commercial Construction		Residential Construction		Bank Deposits (3)
	Commercial	Residential (2) (4)	Total Taxable	Tax Exempt	Number of Units	Value	Number of Units	Value	
1994	22,446,880	21,951,120	44,398,000	32,126,502	29	79,754	45	20,509	9,078,000
1995	21,687,105	20,480,012	42,167,117	32,154,883	5	77,467	67	24,815	8,893,414
1996	20,657,057	22,041,463	42,698,520	29,749,392	12	101,717	80	21,399	9,025,183
1997	19,373,225	22,884,675	42,257,900	30,170,470	57	1,003,761	165	91,170	8,865,299
1998	19,726,319	23,461,404	43,187,723	31,517,981	127	343,121	165	35,851	11,083,673
1999	18,734,933	23,710,565	42,445,498	30,620,782	45	362,692	40	6,746	10,903,390
2000	19,357,631	23,912,435	43,270,066	30,900,682	36	301,372	42	8,217	11,869,797
2001	21,960,148	22,268,968	44,229,116	32,086,134	38	889,830	422	100,366	11,855,000
2002	27,619,604	24,902,543	52,522,147	32,812,037	59	919,252	448	102,861	13,336,000
2003	29,684,430	28,379,237	58,063,667	35,728,289	59	418,049	499	68,931	N/A

(1) Assessed value is 100 percent of estimated actual value.
 (2) After deduction of homestead exemptions and credits against tax.
 (3) Source - Federal Deposit Insurance Corporation Data Book - Summary of Deposits:
 FY94 and subsequent years include Commercial Banks and Savings Institutions.
 (4) Does not reflect the 2002 & 2003 Cap Assessment of 25% for Class 01 with Homestead Exemptions

Source: Office of Tax and Revenue

n/a Not available

Exhibit S-10

TEN HIGHEST ASSESSED VALUES FOR TAX EXEMPT PROPERTIES

October 1, 2003
(\$000s)

Property (1)	Value
George Washington University	\$ 604,882
The International Bank for Reconstruction and Development	556,539
Howard University	508,288
Georgetown University	483,525
International Finance Corporation	333,056
International Monetary Fund	238,546
American University	223,572
Washington Hospital Center	192,067
National Cathedral	184,943
WMATA	163,783

(1) Excludes Federal, District and foreign government properties.

Source: Office of Tax and Revenue
District of Columbia

Exhibit S-11

TEN HIGHEST ASSESSED VALUES FOR COMMERCIAL PROPERTIES

October 1, 2003 (\$000s)					
Squares	Lots	Building	Land	Improvements	Total
163	55	1050 Connecticut Avenue, N.W.	\$ 112,406	136,872	249,278
106	49	1835 I Street, N.W.	119,363	115,637	235,000
321	27	555 12th Street, N.W.	74,465	156,335	230,800
224	22	613 15th Street, N.W.	66,888	110,354	177,242
290	44	0501 13th Street, NW	46,712	130,118	176,830
465	96	400 7th Street, S.W.	70,720	96,666	167,386
299	833	445 12th Street, SW	14,007	152,455	166,462
248	830	1301 K Street, N.W.	39,779	124,404	164,183
538	874	300 E Street, S.W.	29,723	129,274	158,997
248	830	1301 K Street, N.W.	47,237	106,080	153,317

Source: Office of Tax and Revenue
District of Columbia

Exhibit S-12

TEN HIGHEST ASSESSED VALUES FOR RESIDENTIAL PROPERTIES

October 1, 2003 (\$000s)					
Squares	Lots	Building	Land	Improvements	Total
2630	819	1940 Shepherd Street, N.W.	\$ 8,724	4,476	13,200
2140	44	2840 Woodland Drive, N.W.	3,397	5,469	8,866
2198	16	2900 Benton Place, N.W.	3,169	5,657	8,826
1285	3	1623 28th Street, N.W.	3,402	5,281	8,683
1346	822	Foxhall Road, N.W.	8,475	-	8,475
2198	14	2929 Massachusetts Ave, N.W.	2,572	5,582	8,154
2199	25	2501 30th Street, N.W.	1,951	6,049	8,000
1280	1015	3238-3240 R Street, N.W.	1,153	6,117	7,270
2140	35	2850 Woodland Drive, N.W.	2,601	3,381	5,982

Source: Office of Tax and Revenue
District of Columbia

Exhibit S-13

COMPUTATION OF LEGAL DEBT LIMITATION
(\$000s)

Description	Source	2003
Revenues:		
General Fund:		
District sources	Exhibit A-4	3,597,231
Federal payments (1)		94,043
Subtotal		<u>3,691,274</u>
Less - court fees	Exhibit A-4	-
Total revenues		<u>\$ 3,691,274</u>
Principal and interest:		
General Fund:		
Principal	Exhibit S-15	141,041
Interest	Exhibit S-15	135,593
Total principal and interest (current year)		<u>\$ 276,634</u>
Highest future year debt service cost		<u>\$ 319,160</u>
Percent of Principal and Interest to Revenues (2)		<u>8.6%</u>

(1) Federal payments excludes on behalf payments for police, fire, and teachers retirement programs.

(2) Under the District of Columbia Self-Government and Governmental Reorganization Act, no long term general obligation debt (other than refunding debt) may be issued during any fiscal year in an amount which would cause the amount of the principal and interest paid in any fiscal year on all long term debt to exceed 17 percent of the revenues of the fiscal year in which the debt is issued. The debt service percent is calculated using the highest fiscal year debt service divided by the total revenues. The debt service percent limitation was increased from 14 to 17 percent in fiscal year 1998 as a result of the National Capital Revitalization and Self-Government Improvement Act of 1997, accounting for the decrease in revenues from the repeal of the Federal payment in lieu of taxes and the loss of court revenues.

Source: Office of Tax and Revenue
District of Columbia

Exhibit S-14

PERCENT OF GENERAL OBLIGATION DEBT TO ASSESSED VALUE AND GENERAL OBLIGATION
DEBT PER CAPITALast Ten Fiscal Years
(\$000s)

Fiscal Year	General Obligation Debt (Note 7A) (1)			Assessed Value (Exhibit S-9)	Percent of Debt		
	Component Unit	General	Total		To Assessed Value	Population (Exhibit S-16)	Debt Per Capita (2)
1994	337,760	3,314,312	3,652,072	44,398,000	8.2%	565,796	6,455
1995	323,172	3,157,003	3,480,175	42,167,117	8.3%	552,466	6,299
1996	303,719	2,965,756	3,269,475	42,698,520	7.7%	539,646	6,059
1997	282,100	3,084,763	3,366,863	42,257,900	8.0%	529,895	6,354
1998	114,122	3,091,403	3,205,525	43,187,723	7.4%	523,124	6,128
1999	107,662	3,098,582	3,206,244	42,445,498	7.6%	519,100	6,177
2000	100,147	3,109,728	3,209,875	43,270,066	7.4%	572,059	5,611
2001	95,296	2,582,017	2,677,313	44,229,116	6.1%	571,822	4,682
2002	79,070	2,670,573	2,749,643	52,522,147	5.2%	570,898	4,816
2003	65,645	3,251,118	3,316,763	58,063,667	5.7%	563,384	5,887

(1) There is no revenue, special assessment or overlapping debt.

(2) These amounts are not expressed in thousands

Source: Office of Budget and Planning
District of Columbia

Exhibit S-15

PERCENT OF DEBT SERVICE TO GENERAL FUND EXPENDITURES

Last Ten Fiscal Years

(\$000s)

Fiscal Year	Debt Service (Exhibit A-2)			General Fund Expenditures (Exhibit S-4)	Percent of Debt Service to General Fund Expenditures
	Principal	Interest (1)	Fiscal Charges		
1994	\$ 139,515	186,878	7,020	333,413	4,776,313 7.0%
1995	157,308	184,510	3,077	344,895	4,395,388 7.8%
1996	191,247	173,807	2,650	367,704	4,486,273 8.2%
1997	207,903	174,085	13,567	395,555	4,290,397 9.2%
1998	219,435	171,430	8,997	399,862	3,964,246 10.1%
1999	261,534	191,903	6,597	460,034	4,659,232 9.9%
2000	220,054	172,326	2,732	395,112	5,064,215 7.8%
2001	108,725	146,043	3,134	257,902	5,387,695 4.8%
2002	131,750	135,688	4,744	272,182	3,639,149 (2) 7.5%
2003	141,041	135,593	15,338	291,972	3,840,284 7.6%

(1) Excludes accrued interest on capital appreciation bonds.

(2) In FY2002, the District elected to exclude 'Federal Payment' and 'Operating Grant' from the General Fund, and reported separately in Federal & Private Resources Fund. As a result, FY2002's balance is not comparable to prior years' balances.

Source: Office of Budget and Planning

Exhibit S-16

DEMOGRAPHIC STATISTICS

Last Ten Fiscal Years

Fiscal Year	Popula- tion (1)	Per Capita Income (2)	Median Age	Schools		University		Employ- ment	Unemploy- ment Rate
				Students	Teachers	Students	Graduates		
1994	565,796	31,860	34.5	80,678	6,233	6,476	595	662,000	8.3%
1995	552,466	33,452	34.9	80,450	6,038	6,518	927	646,900	8.7%
1996	539,646	33,435	n/a	79,802	5,695	5,863	1,041	633,100	8.7%
1997	529,895	34,932	36.0	78,648	5,062	4,754	961	612,700	7.7%
1998	523,124	36,248	36.3	77,111	5,482	5,284	692	611,000	8.5%
1999	519,100	38,721	37.2	71,899	5,267	5,181	576	616,400	6.1%
2000	572,059	39,858	37.6	70,762	5,030	5,358	554	619,900	5.5%
2001	571,822	41,014	37.6	68,925	4,850	5,456	580	651,200	6.0%
2002	570,898	41,014	37.6	67,522	4,938	5,589	466	652,000	6.1%
2003	563,384	28,659	34.6	65,093	4,365	5,602	483	667,500	6.0%

(1) Source: Federal Bureau of the Census (As of July 1)

(2) Source: Federal Department of Commerce, Bureau of Economic Analysis

MISCELLANEOUS STATISTICS

Last Two Fiscal Years

Description	2003	2002
Area (square miles):		
Federal and foreign governments	23.3	22.7
District government	3.2	2.9
Streets and alleys	15.8	16.7
Taxable base	19.6	19.6
Total area	<u>61.9</u>	<u>61.9</u>
Employees (authorized, permanent, full-time):		
Governmental direction and support	2,377	2,327
Economic development and regulation	538	544
Public safety and justice	7,379	7,170
Public education system	10,818	10,817
Human support services	4,280	3,947
Public works	<u>1,454</u>	<u>1,517</u>
Total employees	<u>26,846</u>	<u>26,322</u>
Environmental:		
Number of trees	110,000	106,000
Police Protection:		
Number of stations including satellites	14	14
Number of police officers	3,711	3,666
Crime index offenses	39,797	40,213
Fire Protection:		
Number of stations	33	33
Number of fire fighters	1,388	1,294
Transportation:		
Number of street lights	66,570	66,089
Number of traffic signalized intersections	1,533	1,529
Water:		
Number of customer locations	122,502	121,686
Average daily consumption (in millions of gallons)	86	88
Miles of mains	1,300	1,300
Sewers:		
Miles of mains	1,800	1,800
Daily maximum capacity (in millions of gallons)	370	370
Economic:		
Taxable retail sales (in millions)	\$7,683	\$7,485
Unemployment claims accepted	21,527	26,166
Unemployment claims rejected	7,342	10,706
Recreation:		
Number of centers and playgrounds	75	78
Number of day camps	57	78
Number of outdoor swimming pools	32	22
Number of indoor swimming pools	6	7
Libraries:		
Number of main and branch buildings	22	22
Number of community and kiosk facilities	5	5
Number of volumes	2,609,062	2,721,119
Education:		
Number of public schools	147	147

Source: Office of Tax and Revenue/Dept of Public works
District of Columbia

COMPREHENSIVE ANNUAL FINANCIAL REPORT

2 0 0 3

ANTHONY A. WILLIAMS MAYOR

NATWAR M. GANDHI CHIEF FINANCIAL OFFICER



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ERNEST GRANT CFO'S OFFICE OF COMMUNICATIONS

LATEEF MANGUM MAYOR'S OFFICE OF COMMUNICATIONS

KENNETH WYNER (CONVENTION CENTER PHOTO)

GOVERNMENT OF THE DISTRICT OF COLUMBIA
OFFICE OF THE CHIEF FINANCIAL OFFICER

YEAR ENDED SEPTEMBER 30, 2003

